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Politics this week



In **Greece** trade unions held a general strike and tens of thousands of people took to the streets of Athens to protest against forthcoming austerity measures. George Papandreou, the prime minister, reshuffled his government and sought a vote of confidence to get the measures passed. With negotiations continuing over a second bail-out package for Greece, Standard & Poor's, a rating agency, downgraded the country's long-term sovereign debt to just above default status; it now has the lowest credit-rating of any country covered by S&P. See article

Turkey's ruling Justice and Development (AK) party won a third consecutive general election, taking almost half the votes. But it did not secure enough seats to enable it unilaterally to rewrite the constitution, as Recep Tayyip Erdogan, the prime minister, had hoped. In his victory speech Mr Erdogan pledged to work with opposition parties, which criticised him before the election for what they say is an authoritarian ruling style. See article

Italy's government was trounced in four referendums, on nuclear power, legal immunity for government ministers and two on water privatisation. The setback for Silvio Berlusconi came just weeks after the prime minister had seen his favoured candidate defeated in a mayoral election in Milan, his home town. See article

The Conservative-Liberal Democrat government in **Britain** accepted the results of an independent review into its reforms of the National Health Service. The coalition's emphasis on internal competition will be weakened and the pace of change will slow. Doctors welcomed the move; the opposition Labour Party said it was a humiliating U-turn. Meanwhile, public-sector unions promised to bring hundreds of thousands of workers out on strike in co-ordinated protests against cuts. See article

Exiting Gates

Robert Gates, America's departing defence secretary, attacked the lack of commitment from some European members of **NATO**, describing the organisation as a "two-tiered alliance" with diminishing abilities to mount operations. Mr Gates complained that "while every alliance member voted for the Libya mission...fewer than a third have been willing to participate in the strike mission." See article



The **Republicans** held their first proper presidential debate, with seven candidates taking part in the proceedings in New Hampshire. Mitt Romney got off lightly, as his rivals held back from attacking the Obama-like health-insurance mandate he introduced while governor of Massachusetts. Michele Bachmann, a tea-party favourite, formally entered the race at the debate. Newt Gingrich also attended, despite the earlier mass resignation of his campaign staff.

Hospital orders

Hugo Chavez, **Venezuela's** president, underwent an operation for a pelvic abscess in Cuba. See article

Argentina returned cargo to the **United States** that it had seized from an American military aircraft in February, including satellite equipment and morphine. Although the American government said the materials were intended for a police training course, Argentine officials had accused it of trying to smuggle the goods into their country.

A rocky outlook

The squabbling intensified over territory in the **South China Sea**. After a tussle between Chinese and Vietnamese boats, China demanded that Vietnam halt its exploration for oil around the Spratly Islands. Vietnam responded by conducting live-fire drills and drawing up plans for conscripting troops. The Philippines reasserted its claims in the Spratlys, and Taiwan announced plans to reinforce its garrison there.

Police authorities in China and Taiwan were among those of several countries that co-operated to bust a **South-East Asian** crime ring. Nearly 600 suspects were arrested, 177 of them in Indonesia alone. Most were Taiwanese nationals. The criminals used an array of scams to defraud their victims, who were mostly ethnic Chinese residents in six countries.

Myanmar's army engaged one of the country's largest rebel militias in pitched battles in the north-east, where China is building a series of vast hydropower projects. Most of the fighting took place just 30km from the Chinese border. Thousands of civilians fled, most of them ethnic Kachins, and many sought refuge across the border.

Sequenced bomb blasts in Peshawar, in north-west **Pakistan**, killed at least 39 people. The Pakistani Taliban denied responsibility. Afghanistan's president, Hamid Karzai, had been in Islamabad only hours earlier.

A court in Jakarta found **Abu Bakar Basyir** guilty of terrorism-related charges and sentenced him to 15 years in prison. The radical Islamic cleric has previously been blamed for a number of bomb plots across Indonesia. He was jailed for conspiring in the Bali attack in 2002, but the Supreme Court eventually quashed that conviction.

Ayman al-Zawahiri took over as **al-Qaeda's** new leader following the killing of Osama bin Laden by American forces in Pakistan. The organisation's former number two vowed to continue its *jihad* against America and Israel.

No conversion in Damascus



At least 8,500 **Syrians** fled to Turkey after government troops backed by helicopters and tanks entered the restive town of Jisr al-Shughour, near the border. Demonstrations continued to spread across the country. Turkey castigated President Bashar Assad's regime. But the Russian and Chinese governments seemed likely to block a UN Security Council resolution condemning the crackdown. See article

Five months after being nominated as **Lebanon's** prime minister, Najib Mikati, a Sunni supported by Hizbullah, the Shia party-cum-militia, at last got parliament to vote him formally into office.

The interim government in **Tunisia** said that Zine el-Abidine Ben Ali, the ousted president, will stand trial in absentia on charges that range from conspiring against the state to drug-trafficking.

A party created by the Muslim Brotherhood agreed in principle that it would form a united front with the Wafd, an old liberal secular party that used to co-operate with the previous regime, to compete in **Egypt's** general election scheduled for September. See article

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Business this week



Consumer prices in **China** rose at the quickest pace in three years, by 5.5% in May from a year earlier. Politically sensitive food prices surged by 11.7%. The People's Bank of China increased the reserve requirement for banks for the sixth time this year, the latest step in the central bank's effort to restrain credit and cool the economy. Separate data showed a sharp fall in new loans issued by Chinese banks in May compared with April.

A jittery world economy

America's headline **inflation** rate, including food and energy, rose by a seasonally adjusted 0.2% in May from April (or by 3.6% from a year earlier). Excluding food and energy, prices increased by 0.3%, the fastest clip since July 2008.

George Osborne, the British chancellor, threw his weight behind the proposals of the **Vickers commission on banking**, which in an interim report in April recommended that banks ring-fence their retail operations and set aside 10% of capital as a buffer against hard times, a higher ratio than that currently being proposed in international capital rules. Mr Osborne also announced plans to auction off the mortgage and savings business of **Northern Rock**, which was taken into state ownership in 2008. See article

The **IMF** formally accepted the nominations of two candidates for the position of managing director: Christine Lagarde, the French finance minister and firm favourite for the job, and Agustin Carstens, the governor of the Bank of Mexico, who has asked emerging economies to back his long-shot bid. Stanley Fischer, a renowned academic economist who heads Israel's central bank, made a late entry into the field but was excluded from the final list because at 67 he is two years older than the maximum for candidates.

Johnson & Johnson decided to pull out of the business for drug-coated heart stents, a market it transformed when it introduced a blockbuster product in 2003. Recently its sales from stents have shrunk as rivals have brought out ever more innovative devices.

Leading the way?

Nicolas Sarkozy sharpened his attack on **speculation in commodities markets**, which he insists is an underlying factor in pushing up prices for raw materials. The French president said that the "gap between the reality of physical markets and

that of financial markets has widened" and called for stricter regulations, on commodities trading, such as minimum deposits for derivatives trades and a global standard for clearing contracts.

Glencore (which came under fire from Mr Sarkozy in his speech, without being named specifically) posted its first earnings since making its stockmarket debut last month. The commodities-trading company reported that revenue had increased by 39% and net profit by 47% in the first quarter compared with the same period last year.

Maple Group Acquisition, a consortium of Canadian banks and pension funds which has launched a hostile bid for **TMX**, the operator of the Toronto Stock Exchange, said four more financial institutions had joined its alliance. Maple is trying to trump a friendly offer for TMX from the London Stock Exchange.

Apple settled a patent dispute with **Nokia**, which demanded royalties for the use of its intellectual property in the iPhone. Apple will pay a one-off fee to Nokia and royalties from now on. The pair will enter into a patent-licensing agreement that ends all outstanding quarrels over patents between the companies, including the countersuit that Apple brought against Nokia.

As Apple and Nokia made up, tensions escalated between **Hewlett-Packard** and **Oracle** when HP sued Oracle, accusing it of purposely neglecting to fix software bugs for customers in a chip widely used in HP's servers in order to entice them to switch to Oracle's servers. The two companies have been at odds since Mark Hurd was forced out as HP's boss last year, only to take a senior position at Oracle.

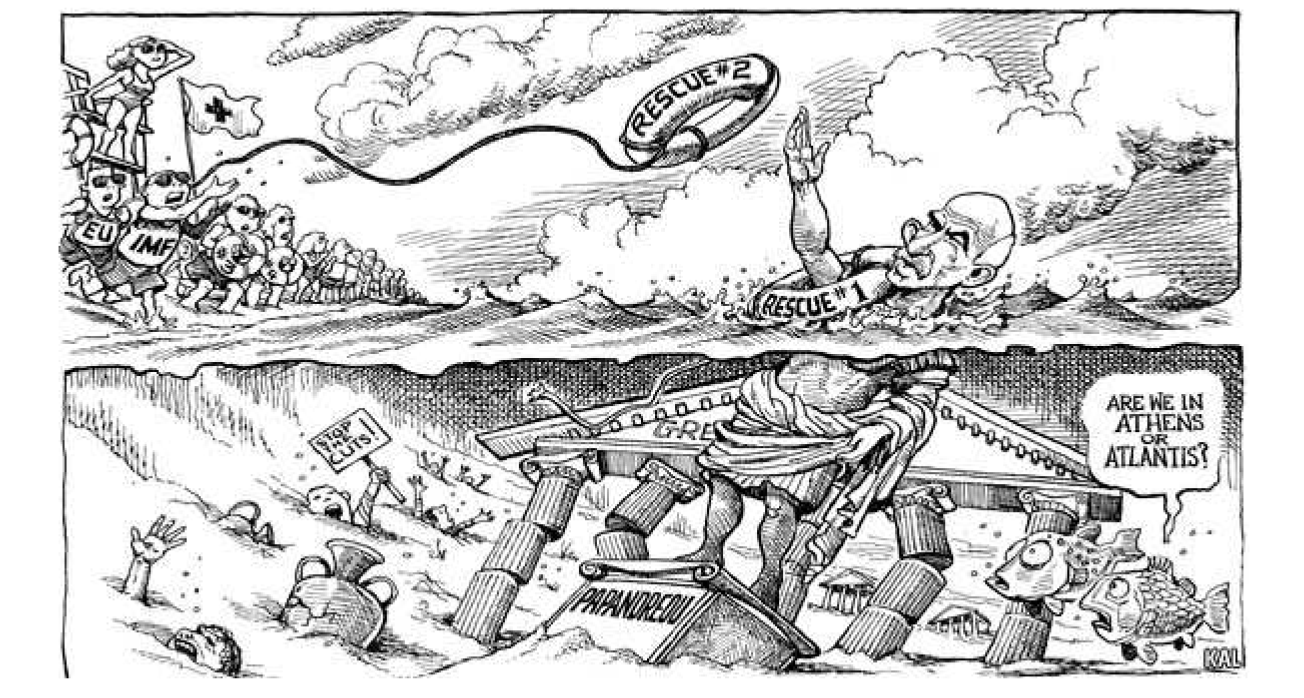
Pandora's money box

Another internet company made a much-heralded stockmarket debut. **Pandora**, an online music service, priced its initial public offering well above expectations at $16 a share. Plenty of analysts believe that many of the recent "hot" tech flotations may have been overpriced. Profitless Pandora faces stiffer competition as Apple and others expand their music services.

VF, a clothing and footwear company based in North Carolina that owns some of the world's most-recognised apparel brands, including Wrangler, Lee, Vans, Nautica, JanSport and North Face, added **Timberland** to its range by agreeing to pay around $2.3 billion for the outdoorsy label. VF traces its roots to 1899, as a glove manufacturer in Pennsylvania.

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KAL's cartoon



The world economy

Sticky patch or meltdown?

How politicians could carelessly turn a temporary softening of the global recovery into something worse



SUMMER is at hand in the world's big financial centres, but the mood is hardly bright. Stock prices have been sliding for weeks in response to gloomy economic news. Factory output has slowed across the globe. Consumers have become more cautious. In America virtually every statistic, from house prices to job growth, has weakened. There was some respite earlier this week, but only because a few figures-on American retail sales and Chinese factory production-were not as dire as feared.

Globally, growth is at its weakest since the recovery began almost two years ago. Is today's softness just a sticky patch, or is the global recovery beginning to melt away?

The great softening

The reasons for the lull suggest it should be temporary. First, the tsunami in Japan sent its GDP tumbling and disrupted supply chains, and thus industrial output, around the world, particularly in April. But just as that slump shows up in the economic statistics, more forward-looking evidence points to a rebound. The summer production schedules of American car firms, for instance, indicate that the pace of annualised GDP growth there will accelerate by at least a percentage point.

Second, demand was dented by a sudden surge in oil prices earlier this year. More income is being shifted from cash-strapped consumers in oil-importing countries to producers who tend to sit on their treasures. Costlier fuel has knocked consumer confidence, particularly in gas-guzzling America. And there is still an uncomfortable possibility that further instability in the Arab world will send prices soaring again. Nonetheless, at least for now, the pressure is waning. America's average petrol price, though still 21% higher than at the beginning of the year, has started to fall. That should boost shoppers' morale (and their spending).

Third, many emerging economies have tightened monetary policy in response to high inflation. China's consumer-price inflation accelerated to 5.5% in the year to May. India's wholesale prices leapt by 9.1%. Slower growth is, in part, a welcome sign that their central banks have taken action, and that those measures are beginning to work. There is no evidence that they have gone too far, even in China, where the worries about bringing the economy down with a bump are loudest. The bigger risk is that nervousness about a weakening world economy leads to a premature pause in the tightening. With monetary conditions still extraordinarily loose, such a loss of resolve would make higher inflation and an eventual crash far more likely.

A growth lull may be just what most emerging markets need, but it is the last thing that any advanced economy wants at the moment. The recovery in the rich world is weak and vulnerable, as recoveries tend to be after balance-sheet recessions. This lull is particularly dangerous because it coincides both with a move away from fiscal and monetary stimulus and with an outbreak of risky political brinkmanship on both sides of the Atlantic.

The shift from stimulus is well under way. Faced with a similar sluggishness last year, America's Federal Reserve promised to jolt the economy with a second round of quantitative easing: printing money to buy government bonds. But the latest spell of quantitative easing comes to an end this month and the Fed has made clear it has no desire to add to it. The European Central Bank (ECB), meanwhile, is set to raise its policy rate again in July. The budget squeeze around Europe is intensifying, and even in America fiscal stimulus may give way to austerity (see article).

Some of these policy decisions are right. With America's underlying inflation rate no longer uncomfortably low and declining, it makes sense for the Fed to refrain, for now, from another round of loosening; and, on the fiscal side, the country can probably get by without further stimulus. Some are not. In the euro area, where there is scant evidence of wage inflation and extreme weakness in the periphery economies, the ECB should not raise rates. In America, the big danger is that the row between the political parties over the country's medium-term deficit leads to short-term spending cuts that are just what the country does not need right now.

Politicians playing poker

The current battle over raising the federal government's debt ceiling is driven not by careful consideration of the economics but by ideology and brinkmanship. Democrats refuse to consider serious spending reform. Republicans reject higher taxes. Many tea-party types would rather see America's government default than compromise on spending. The result is a perilous stand-off-and a growing danger that America will have to make drastic short-term spending cuts, or even find itself forced into a technical default.

A parallel dynamic is playing out in the euro zone, where the debate about how to deal with Greece's debt crisis has descended into a high-stakes stand-off between Germany, which wants the maturities on Greek bonds to be extended, and the ECB, which resists any debt restructuring (see article). The hope is still that Europe's leaders will come up with a face-

saving compromise at their summit on June 23rd-24th. But the longer the confrontation continues, the greater the risk of an accident: a chaotic Greek default and exit from the euro.

This dangerous political brinkmanship could also have a damaging effect by creating uncertainty. Companies are currently sitting on piles of cash because they are wondering how strong economic growth will be. Politics gives them more reason to sit on their hands rather than investing and hiring immediately, providing a boost the world economy sorely needs.

There is a real risk that the politicians' pig-headedness could lead to disaster. The odds of a catastrophe-harsh fiscal tightening in America, or a crash in the euro zone-may not be high, but neither are they negligible. Though economic logic suggests that the world economy is just going through a sticky patch, squabbling politicians could all too easily turn it into a meltdown.

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Turkey's election

Erdogan's landslide

The re-elected Turkish prime minister should seek consensus not confrontation



IT WAS a commanding victory by any standard. In the Turkish election on June 12th the Justice and Development (AK) party, led by Recep Tayyip Erdogan, the sitting prime minister, took nearly 50% of the vote, on a turnout of 87%. This is AK's third win in a row; its share of the vote has risen each time. Amid the turmoil of the Arab spring, Turkey offers a heartening example of a secular democracy in the Muslim world.

It was heartening for another reason, too: that AK fell short of its hoped-for two-thirds majority in parliament (see article). Had he surpassed that, Mr Erdogan could have done the thing he most wants to do-rewrite the constitution-without taking anybody else's views into account.

The constitution, drafted by the army after a military coup in 1980, does indeed need updating if Turkey is to become a more liberal democracy. But it would be better done in consultation with the opposition. That would be the case anywhere,

but is especially true in Turkey. For the worrying thing about an AK third term is not that the party might draw on its roots by trying to "Islamise" the secular republic; it is that Mr Erdogan will indulge his autocratic bent. Already, too many critical journalists are being held in jail.

The next four years may tempt Mr Erdogan to be even less tolerant of criticism, for he will surely receive more of it. The economy's exceptional strength has underpinned AK's support for the past decade. But it appears to be overheating (the current-account deficit has just hit a whopping 8% of GDP) and, given that unemployment is still around 11%, the measures that are needed to slow it down will be unpopular.

In foreign policy, too, the going is likely to get tougher. Turkey has done well to promote the causes of democracy and human rights in its Arab neighbours, including Syria (see next leader), but unrest and violence on its doorstep will test its diplomacy. Relations with Israel are frosty, and Turkey's membership talks with the European Union are stuck. If he is to make progress on either front, Mr Erdogan needs to be more conciliatory than in the past.

Forget the presidency, consider the legacy

But the constitution remains his biggest test. On this Mr Erdogan should do two things. First, he should give up his ambition to create the powerful French-style executive presidency that he had hoped to bag at the end of this term as prime minister. This is a bad idea for an overcentralised country like Turkey, and no other party is likely to accept it. There is no reason why Mr Erdogan should not be president; but he should wait patiently to succeed his AK party colleague, Abdullah Gul, in what is largely a figurehead job, in 2014-or, if Mr Gul gets a second term, in 2019. That would put him in the Cankaya Palace in time to mark the republic's centenary in 2023.

Second, he should make a new effort to solve Turkey's gravest problem: relations with the country's 15m Kurds. The election returned 36 members for the pro-Kurdish Peace and Democracy Party (BDP). Two years ago Mr Erdogan launched a "Kurdish opening", but he gave it up in the face of renewed clashes between the army and the Kurdistan Workers' Party (PKK). Since he needs help to rewrite the constitution, he should now turn to the BDP, offering more minority rights and devolution in exchange for an end to violence-even if that means talking to the jailed PKK leader, Abdullah Ocalan.

Mr Erdogan will not run a fourth time, which is why he has his eye on the presidency. He should think rather of his place in history. A sound liberal constitution and a settlement with the Kurds: such a legacy would give him a place alongside Ataturk among modern Turkey's greatest men.

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Syria

Who will take on Assad?

Outsiders cannot intervene militarily in Syria. But its rulers should not be given a free pass



THE comparison with Libya is irresistible. Colonel Muammar Qaddafi and Syria's President Bashar Assad are both odious dictators. The colonel is a lot crazier, has been in charge a lot longer, has killed a lot more people over the years, and has drawn up a far longer list of enemies at home and abroad. But Mr Assad, who has run Syria since his long-ruling father, Hafez, died in 2000, inherited a regime that has been just as nasty.

Assad *pere* notoriously butchered perhaps as many as 20,000 people in the city of Hama in 1982. The son is surrounded by the same clique of greedy gangsters, many of them his close relations, who have routinely used assassination, imprisonment and torture as instruments of rule. And since Syria's protesters have started to express their democratic yearning, Mr Assad has been matching Colonel Qaddafi's brutality. Human-rights groups reckon his security forces have killed at least 1,300 Syrians, most of them civilians. The tempo of repression is quickening (see article). Moreover, the unrest and the violence seem to be spreading; the opposition says that on Friday June 10th demonstrators rose up in no fewer than 138 places.

The NATO campaign against Colonel Qaddafi has saved many lives in Libya-even though he clings on to power. Seeing that outsiders have intervened to stop the butchery and, by extension, to remove the tyrant from power in one Arab country, why should they not dish out the same salutary treatment to Syria and Mr Assad?

The simple answer is that Syria is-and always was-too big and complicated for outsiders to step in. Liberal intervention is not about charging blindly in, but about using force judiciously when possible. Whereas Libya, though vast in desert area, is a country of 6m-plus fairly homogeneous people living on a narrow coastal strip, Syria is a web of religions and sects embracing 21m people scattered across an area that abuts the Middle East's most combustible flashpoints, including Israel, Lebanon and Iraq.

The intensification of sectarian strife that might well accompany a military intervention in Syria could light a fuse in neighbouring Lebanon, where tensions in an even more complex sectarian labyrinth keep the country smouldering at the best of times. Iraq has long suffered from the infiltration of jihadists from Syria, who might be emboldened if the Assad regime were to fall. As for Israel, Syria is still technically at war with it, though the Assads have been canny enough, on the whole, not to tempt it into using its full military might against them. But instability in Damascus is already causing ructions on the Israeli-Syrian border. Finally, there is Turkey, which for many years got on badly with Syria, but which more recently managed a rapprochement. However, in the past fortnight, since thousands of terrified Syrians have fled across the border into Turkey, relations have sharply worsened. Recep Tayyip Erdogan, Turkey's recently re-elected prime minister, has turned against Mr Assad. There has even been talk of Turkey creating a haven for those refugees, which would inevitably become a source of tension and even violence. In sum, Syria is a regional snake-pit in which few neighbours-or outsiders from farther afield-would be wise to dangle their toes.

Keep it local

But Mr Assad must not get away with murder. Nor should he bank for ever on his old friends in Russia (with China standing by) to fend off condemnation in the UN Security Council. Sanctions against leading Syrians and firms linked to them may hurt a bit-and should be widened. But the best-placed people to make Mr Assad give ground are local-the Turks, the Gulf Co-operation Council with Saudi Arabia and Qatar to the fore, and the usually toothless but perhaps slowly stirring Arab League, which endorsed NATO's intervention in Libya.

If he were sensible, Mr Assad would, under such neighbours' pressure, agree to open talks with the gamut of liberals and socialists, secular-minded Syrians and Islamists, including the banned Muslim Brothers and the signatories of the admirable Damascus declaration, which united opposition calls for reform in 2005. As a precondition, all political parties and the media would be set free, and open elections promised within, say, a year. As things stand, Mr Assad will surely reject all such ideas out of hand. But the tide may be turning. If he refuses to budge, the Syrian people will bring him down in the end-on their own, and bloodily.

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Nuclear disarmament

Move the base camp

A campaign to get rid of all nuclear weapons is worth supporting even if the ultimate goal is unattainable



THERE was a time when the sort of people who campaigned to rid the world of nuclear weapons wore anoraks and thick jumpers and camped out in yurts. Henry Kissinger and George Shultz, both secretaries of state in Republican administrations, did not belong among them. But those men have now been joined by Barack Obama and a cohort of hard-nosed politicians and diplomats in embracing the cause of multilateral disarmament with the aim of getting to zero nuclear weapons.

They argue that the proliferation of nuclear weapons is fast reaching a "tipping point" beyond which it will be impossible to check their spread. Their use either in war, by accident or by terrorists is becoming increasingly likely. The only way to confront this danger, it is claimed, is by starting a phased, verifiable, multilateral process to eliminate all nuclear weapons. Since the cold war, America and Russia have cut their stocks sharply, but they still account for 95% of the world's 20,500 nuclear weapons. If they dismantle their arsenals they will be in a stronger position to preach to others.

You might conclude that the gravel-voiced Mr Kissinger is going soft, but the idea has caught on among other strategic thinkers. World leaders, such as Russia's president, Dmitry Medvedev, have signed up. In September 2009 the UN Security Council endorsed the vision of a world without nuclear weapons. Much of the running has been made by Global Zero, an organisation founded four years ago that is holding its third "summit" in London next week. It has come up with a four-phase action plan for reaching zero by 2030 (see article). The plan starts in the right place, with the scaling down of America's and Russia's nuclear arsenals to 1,000 weapons apiece. It acknowledges that progress will depend on verification and other states playing their part.

An alpha particle for effort

Part of the point of Global Zero is to inspire interest in the subject. The old way of doing arms control-highly technical and incremental-no longer captures the public's imagination. It also fails to deal with today's worries, such as a nuclear Iran triggering proliferation in the Middle East, or Pakistan's bomb falling into the hands of jihadists. If states contemplating a weapons programme believe that counter-proliferation can work, then they are less likely to proliferate themselves.

There are some big objections to Global Zero's aspirations. In a world where owning even a handful of bombs would confer huge advantage, verification will have to be completely reliable. Thankfully, the sophistication of verification techniques is improving at a rate that makes this at least feasible. And getting even close to zero may require settling some of the world's most intractable arguments, such as the tussle between India and Pakistan over Kashmir or the conflict between Israel and the Palestinians, though America and the former Soviet Union made some progress in cutting weapons, despite their cold-war relations. Lastly, nuclear deterrence and America's extension of it to its allies may be one reason why great powers have not directly gone to war against each other for 65 years. That's true; but even if nuclear weapons were eliminated, the threat that they could be rebuilt would remain a reason to avoid conflict.

What about terrorists or rogue states? Nuclear weapons cannot be uninvented; they use a mature, widely understood technology. At present, it is all too easy for nuclear material to be diverted from a civil programme to bombmaking. Without a treaty to prohibit the use of fissile material for weapons production the world will not get to zero.

But do not conclude from this that the Global Zero campaign must be either a fantasy or a cynical ploy to use token disarmament to stop proliferation. It is neither. If done in the right way the process of disarming can do enormous good, regardless of whether that final step can ever be taken. Sam Nunn, a former American senator who now leads the Nuclear Threat Initiative, likens nuclear zero to a mountain. Even though the peak is far beyond reach today, it still makes sense to move from the foothills up the mountain to a higher, safer base camp. From there-who knows?-the world may one day be able to strike out for the summit.

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Health-care reform

Whatever happened to Radical Dave?

David Cameron's health-care reform has turned into a botched and cowardly compromise



IT IS easy to be befuddled by the details of the government's revised plan for the National Health Service, revealed this week after a belated consultation exercise; indeed, befuddlement was one of its main aims. But the basic, lamentable message is that noise from inside the NHS machine, and the exigencies of managing a coalition, have led David Cameron to temper his bid to introduce more competition into health care. As a result, his government now looks less radical, and less transformative, than it once did.

Most rich countries are struggling to contain the costs of health care in an era of rising life expectancy, rapid technological advances and insatiable demand among patients who download recipes for immortality from the internet. The NHS's model of universal coverage, funded by general taxation, is less profligate than others (Britain spends 9.3% of its GDP on health, compared with America's 16.2%). Yet although Mr Cameron exempted NHS spending from the deep cuts the coalition is inflicting on other departments, the service needs to save pound20 billion ($32 billion) in the next four years, just to maintain current standards.

Last year the government produced a two-part blueprint for reforming the NHS. One part was a bid to introduce more choice and competition, by enabling private and voluntary providers to treat more NHS patients. That should not have been controversial: along with the cash it hurled at the service, Tony Blair's government began to transform it from a publicly run monopoly to a state-funded market, in which both public and private hospitals treat NHS patients-the sort of system that exists in much of the rest of Europe. Until Gordon Brown took over and dampened reform, it was starting to have an impact: according to research by the London School of Economics into post-operative heart care, giving patients choice led to productivity increases that saved around 300 lives a year.

Alas, some voters seem unable to distinguish between the way health care is funded and the way it is provided, believing that more privately delivered care will spell the end of the state-financed system. There is thus a political incentive to oppose more competition-which the Liberal Democrats, the Conservatives' coalition partners, duly and culpably did, even though they had at first supported the reforms. Sensitive as he is to the old charge of Tory heartlessness over the NHS, Mr Cameron's own enthusiasm waned as the row intensified.

The result is that the revised plan is much cooler on competition (see article). The health regulator, which was to have been made responsible for promoting it, will now have other priorities. Mr Cameron says that there will be no competition "just for its own sake": that sounds rather as if it will remain a marginal technique, rather than a fundamental approach to improving care. And this, sadly, is not the only example of his government diluting its ambition to foster pluralism: there is still no sign of a long-promised white paper on competition across the public services.

Hypocritical not Hippocratic

The other main part of the plan deals with the way secondary care is commissioned within the NHS. The government had intended to transfer that responsibility to groups of GPs (family doctors) by 2013, eliminating a layer of bureaucracy in the process. Pushing decision-making down to those in closest contact with patients makes sense, even if it leaves GPs with the awkwardly dual roles of patient champions and holders of the purse strings. But the medical professionals squealed; the public-which also seems unable to distinguish between the interests of patients and those of practitioners-tends to listen to them; the government blinked. The new arrangements will now be phased in more slowly and voluntarily, which is reasonable. Less sensibly, hospital doctors will have a say in commissioning care too, which might create even more glaring conflicts of interests. New bureaucracies are being created to take on the responsibilities of the ones being scrapped.

Thus a flagship reform has become a messy compromise designed to comfort politicians rather than patients; a change intended to improve efficiency instead threatens to be both chaotic and costly. And Mr Cameron has shown that his commitment to recasting the state as an enabler and a regulator rather than a monopoly provider is flimsy. His opponents, both inside and outside the coalition, have noted his timidity; his supporters have good reason to be disappointed.

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Letters

On AIDS, Turkey, migration, Brazil's economy, gold, academic publishing, English accents

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Letters are welcome via e-mail to letters@economist.com

In defence of Robert Gallo



SIR - Your "history of AIDS" contained much that is good, but was deeply unfair to Robert Gallo ("Heroes and villains", June 4th). By implication you portrayed Dr Gallo as "a villain" for his early work on the isolation of HIV and the controversy, now long resolved, that arose with Luc Montagnier. Is there no statute of limitations on a transient controversy? Is that how a fine scientist deserves to be remembered given everything else he did before or since? Even if there had been any wrongdoing at the time, and the evidence suggests there never was, Dr Gallo has made very many important contributions to AIDS research that deserve to be recognised.

There's also a deep irony in listing him as a villain alongside Peter Duesberg and Thabo Mbeki. Dr Gallo is a hate figure among Mr Duesberg's lay supporters precisely because he did so much to establish that HIV was the cause of AIDS, which they still deny.

Dr Gallo has stood up to these individuals, including in a court of law, and has been abused for it. He does not deserve to receive more abuse, however implicit and qualified, from a newspaper as respected as *The Economist*.

John Moore
Professor of microbiology and immunology
Weill Cornell Medical College
New York

SIR - You believe that AIDS can be beaten ("The end of AIDS?", June 4th). Yet the biggest cause of AIDS-related deaths is tuberculosis, despite drugs for a cure being available at the relatively modest cost of $25. Your narrow focus on investing in the prevention and treatment of just HIV/AIDS makes little financial sense if an AIDS survivor subsequently dies from TB.

If indeed donors "need to compare the gain from spending more on knocking out AIDS" against spending on other diseases, they should look at the cost-effectiveness of treating TB and HIV in tandem. Simple, low-cost measures, such as regular TB-testing for people living with AIDS, are where investment has the most impact on saving lives. Moreover, TB has been rated among the top ten "best buys" in public health and researchers have found that countries could earn up to ten times what they invest in TB care. Two-thirds of the 6.5m lives saved through Global Fund-financed programmes were saved through TB care, and with only 17% of the budget.

Daniela Mohaupt
Stop TB Partnership
World Health Organisation
Geneva

* SIR - AIDS can be beaten but it will take more than science, activism and altruism. These three components are nothing without political will and an infrastructure to deliver on innovation. Often people living with AIDS live in remote areas of sub-Saharan Africa with little access to health clinics and the drugs that could sustain their lives. Scientific progress is useless without measures to deliver such progress to those most in need. This will require better roads and more rural health clinics that are fully resourced and staffed.

UNAIDS is right to suggest that after 30 years nations are at the crossroads. Yet this is not a crossroads of opportunity but a tipping point of waning support and political will to combat this awful disease.

Sophie Harman
Senior lecturer in global health politics
City University
London

Turkey's election

* SIR - Your leader on Turkey's election, published ahead of polling day, was correct in pointing out that the best guarantee for Turkey's democracy was a strong showing by the opposition to pre-empt unilateral changes to the constitution, and to give the opposition a fair chance of winning future elections ("One for the opposition", June 4th). Indeed, the consolidation of Turkish democracy needs the emergence of a political system where secular and religious forces check and balance each other, under the umbrella of a new and liberal-democratic constitution.



Vindicating that excessive power fosters authoritarianism, Recep Tayyip Erdogan, the prime minister, has claimed bluntly that your article was written by "international gangs."

After this election the opposition Republican People's Party's ideological moderation and renovation should continue. This is necessary not only so that it can balance the power of the ruling Justice and Development (AK) party in elections but also for new approaches to resolving such problems as the Kurdish question, EU relations and the need to secure religious freedoms and the freedoms of thought and unbelief.

Murat Somer
Princeton University
Princeton, New Jersey

* SIR - You were conspicuously illogical. You listed the achievements of the AK party, but then urged a vote for the opposition. This flew in the face of common sense, by seeming to support a return to the chaotic coalition governments of the past.

William Hale
Istanbul

Migrant returns

SIR - It is correct that the impact of emigration on a migrant's country of origin is not all bad (Economics focus, May 28th). The loss of graduates who have been trained through the public purse may be offset by greater skills among returning migrants, remittances, an ambassadorial support role from expatriates, and so on. But you overstated the novelty of these ideas and did not pay much attention to the political subtexts.

Rosy views linking emigration and development were first popularised by Charles Kindleberger in the 1950s. The stock of these ideas crashed in the 1970s, but has been steadily rising again since the 1990s, and may well be cyclical.

Because immigration is good for destination countries, those countries have an incentive to persuade the countries of origin about the merits of migration. And because emigration is a quick fix for unemployment in those countries of origin it can let lazy regimes off the hook for deeper structural problems. This is often coupled with the view that the increased flow of labour means origin and destination countries share a common interest. This is not always the case.

Alan Gamlen
Lecturer in human geography
Victoria University of Wellington
Wellington, New Zealand

* SIR - I was interested by the counter-intuitive conclusion of your article. A corollary of your conjecture that developing countries actually benefit from the emigration of the most educated is that foreign aid should be channelled mainly to education: to strengthen local secondary schools and to fund achievers to study in rich-country universities. In that way the donor country benefits from the brains while the recipient country benefits from the remittances.

Give, drain and gain? Or a recipe for widening the gap?

Paul Griffiths
Santiago, Chile

Brazil's economy

SIR - Data show no evident sign of what you called the "fragile" state of Brazil's "overheating" economy ("Too hot", June 4th). Contrary to your analysis, inflation is not on the rise. All recent indicators clearly point to a deceleration in prices, and markets have reduced their average expectation for the inflation rate in 2011 to 6.22%. We have tightened monetary

policy, especially with regard to basic interest rates. The annualised growth rate of credit fell from 26.8% in November 2010 to 16.7% in April 2011.

As far as fiscal policy is concerned, the public sector had a primary surplus of 57.3 billion reais ($35.8 billion, or 4.5% of GDP) in the first four months of this year, almost half the target for the whole of 2011. That is not a trivial accomplishment. The current level of primary surplus will enable the public sector to achieve a budget deficit of only 1.9% of GDP this year, one of the best performances among the G20.

We are aware of the challenges facing Brazil in the near future, especially those related to productivity and long-term growth. But an "overheating" of the Brazilian economy is not one of them.

Jose Gilberto Scandiucci Filho
Economic adviser to Brazil's finance minister
Brasilia

A precious metal



SIR - The argument that the gold price is far too high for a metal with few industrial uses is a common, and weak, one ("The wacky world of gold", June 4th). You wrote that, "If investors ever wake up and notice that the yellow metal is little more useful than tulips, the gold bugs will be burned." But industrial usefulness does not define value, and here's a simple example: take one pound20 note and consider the paper's industrial applications. Now burn it. See what I mean?

Investors in gold understand that its geological rarity and industrial uselessness combine to produce an incredibly stable stock quantity, the exact utility that savers demand from sound money and something they'll not be getting any time soon from a major currency. Or tulips.

The Economist would do better to wake up, and try to understand why it has been consistently wrong about gold, instead of being condescending to investors who have been right for decades.

Paul Tustain
Chief executive
BullionVault
London

SIR - I am curious. Would you prefer to have a 1933 $20 gold piece or a 1933 $20 Federal Reserve note?

Tom McNamara
Assistant professor
ESC Rennes School of Business
Rennes, France

Academic journals



* SIR - Your article on academic publishing ("Of goats and headaches", May 28th) fell rather short in describing the role of scholarly publishers. While critical review of papers is an inseparable part of being an academic, its organisation and management are not. Without publishers performing this and other important, often invisible, tasks scholarly communication would be far more chaotic and the systems virtually impossible to use.

The creation and management of the journal title as a "brand" is an essential component of the smooth operation of the system. This does not come about by chance but through significant efforts by its publisher and editor over a number of years. Most editors are remunerated. For authors, getting published in the right journal can enhance careers far beyond any monetary payment.

Michael Mabe
Chief executive
International Association of STM Publishers
Oxford

Translation, anybody?

SIR - Your article on England's regional accents confirmed that Geordie has already completely replaced the mackem-speak of Sunderland and other variants in the north-east ("Geordie's still alreet", June 4th). The sacred accent is now articulated by, *inter alios*, none other than Cheryl Cole.



Following her linguistically motivated sacking from the American version of the "X Factor", I have heard on the diaspora grape vine that the Real Popular Front (Provisional) for the Liberation, Independence and Global Recognition of the Democratic People's Republic of Greater Geordieland (in exile) is planning to sever trade relations with the United States over the affront to wor beloved Geordie princess.

Gan canny hinnie, and howay the Toon!

Peter Cain
Trier, Germany

* Letter appears online only

The euro crisis

A second wave

The bail-out strategy that rescued Europe's peripheral economies is proving insufficient. This threatens the whole project of European integration



EUROPE'S year-long attempt to grapple with the sovereign-debt crisis is becoming more nailbiting by the day. For weeks European leaders have been feuding over what to do about Greece, which clearly needs more help with its precarious public finances. But a second rescue, adding even more funding to the original bail-out in May 2010, cannot work unless the Greeks push through more painful reforms. These are now in doubt, sending tremors through financial markets and causing stockmarkets to fall around the world.

From the nation that coined the word drama, there was plenty of it on June 15th. As a general strike took hold across the country, there were violent protests in central Athens, where tens of thousands of people had rallied. After failing to form a government of national unity, George Papandreou, the prime minister, announced that he would reshuffle his cabinet and later call a vote of confidence in parliament. The indignation of the protesters is widely shared. A recent poll published by *Kathimerini*, a newspaper, found that 87% of the public thought the country was heading in the wrong direction.

The same could be said for Europe's approach to the sovereign-debt crisis, as it has spread relentlessly round the southern and western periphery of the euro area. The single-currency zone as a whole is doing well, outgrowing both America and Britain in the first three months of this year. The euro-wide budget deficit also compares favourably with that of other big advanced countries. But the debt crisis is proving intractable, partly because leading policymakers disagree about the way forward and at times seem lost themselves. Time is short. There is a summit of European leaders next week, and Greece must soon pass an austerity budget.

The way it all began

With hindsight, it was no surprise that the debt crisis started in Greece, which failed to join the euro area when it was set up in 1999 because it did not meet the economic or fiscal criteria for membership. Revisions to its budgetary figures showed that it shouldn't have been allowed in when it did join, in 2001. When its debt crisis flared up last year European leaders hoped to contain it at the Greek border, providing a bail-out worth euro110 billion ($158 billion) over three years, of which euro80 billion came from other euro-area members and euro30 billion from the IMF.



Explore our

Any hope of containment was shattered when Ireland's banking difficulties forced a second rescue last November. After that a third bail-out became inevitable, for Portugal, as the cost of its government borrowing shot up and Portuguese banks were shut off from normal funding, coming to rely on the European Central Bank (ECB), based in Frankfurt. What caused consternation was a new shock-from Greece, again-that the first package was insufficient and that the country needed more money for longer.

This sent European policymakers into a frenzy. Their attempts to find a solution have sometimes seemed to spring from the pages of an overwrought thriller. A secret session in early May of some of the main negotiators in Luxembourg leaked out amid official denials that it was even happening. Shortly afterwards the IMF, which has been playing a crucial role, lost its managing director when Dominique Strauss-Kahn had to resign after charges were brought against him for attempted rape in New York. Blazing rows have erupted between Jean-Claude Trichet, the usually unflappable French president of the ECB, and Wolfgang SchÃ¤uble, Germany's redoubtable finance minister, over German demands to inflict some of the pain on private holders of Greek bonds and the central bank's resistance to anything that could be construed as a default.

Europe's heads of state will decide on the second Greek rescue package when they meet in Brussels on June 23rd and 24th. Help will be forthcoming only if the Greek parliament endorses the extra doses of austerity the country must swallow, together with a big programme to privatise state assets worth euro50 billion (20% of GDP). Assuming that Greece does buckle down despite the commotion of this week, as it has promised, it can expect to get an additional euro85 billion in bail-out funding that will now stretch to 2014.

How much of this will have to come from taxpayers? The answer hinges on how far private creditors who have lent to the Greek government can be made to "participate", a euphemism for picking up some of the bill. The Germans have been pressing hard for debt maturities to be extended; the ECB has been adamantly opposed to such a policy, although it may accept a promise by bondholders to buy new bonds when the existing ones mature. Worries about a possible restructuring led Standard & Poor's to downgrade Greek government debt this week from B to CCC, making it the credit-rating agency's lowest-rated sovereign debt in the world.

Already the prolonged irresolution of European leaders about a second Greek bail-out has increased uncertainty for investors and businesses. If they make a false move, the repercussions will affect not just Europeans but Americans too, and indeed the global economy. President Barack Obama recently said that America's growth depends on a successful resolution of the Greek crisis; an uncontrolled default (the first in an advanced country since 1948) would be disastrous. The risk of contagion to other countries through banking losses, which prompted the original rescue, remains acute, not least since the markets would immediately fret about Ireland and Portugal falling in turn. Worries would be rekindled, too, about Spain, which has so far managed to avoid needing a bail-out.

But a still bigger issue is at stake. Even if the European Council manages to cobble together a compromise that buys time for Greece, the fear is that Europe's bold experiment-creating a monetary union among diverse economies without the

underpinning of a fiscal union-may have been too audacious. If it founders, this would be an extraordinary setback for the larger cause of European integration.

Charlemagne's coin

Europe's creation of a single currency remains both futuristic and weighted with history. At a conference about the ECB on June 10th, Volker Wieland, an economist at Goethe University in Frankfurt, said that the euro was the first venture on such a scale in Europe since Charlemagne created a single currency in his empire in 794. In more recent history central banks have capped political unions-as when the Reichsbank was founded in 1876 in the aftermath of Bismarck's unification of Germany through "blood and iron".

The ECB, by contrast, is a supranational institution, although it emerged from an old-fashioned Franco-German deal. The French wanted to fetter German power-in particular the dominance of the German central bank in European monetary policy-after its second unification, in 1990, following the fall of the Berlin Wall. The Germans believed the ECB could be their Bundesbank writ large. Along with these political objectives, the single currency was expected to produce economic gains by eliminating the nuisance and cost of having to change money within Europe, removing exchange-rate uncertainty within the euro area and enhancing price stability. The mantra of its proponents was "one market, one money". The single currency would reinforce the single market, emerging from reforms in the late 1980s and the early 1990s to open national economies to Europe-wide competition.

A stand-alone monetary union without the usual fiscal and political foundations was conceived at the momentous Maastricht summit in December 1991. The treaty set "convergence" criteria, such as low enough inflation and long-term interest rates, to check whether countries were economically fit enough to join the single currency. These also included fiscal criteria, notably ceilings for budget deficits of 3% of GDP and for public debt of 60%. The treaty stipulated that there would be no bail-out of a country that got into fiscal trouble.

But the rules were less strict than they appeared. Belgium and Italy were allowed to join the euro at the outset, even though their debt exceeded not 60% but 100% of GDP-because that debt was falling. Economic convergence at one point in time also proved misleading. What determines whether a country can survive, let alone thrive, in a monetary union is flexibility in both labour and product markets, since it can no longer realign its costs by devaluing.

As for the fiscal tests, what was to stop countries from misbehaving once they had joined? The answer, tacked on in the late 1990s to the Maastricht criteria, was a "stability and growth pact" to reinforce responsible public finances within the euro area. But this too was watered down in 2005, largely at the insistence of France and Germany, after they themselves faced possible sanctions for breaching the budget-deficit limit.

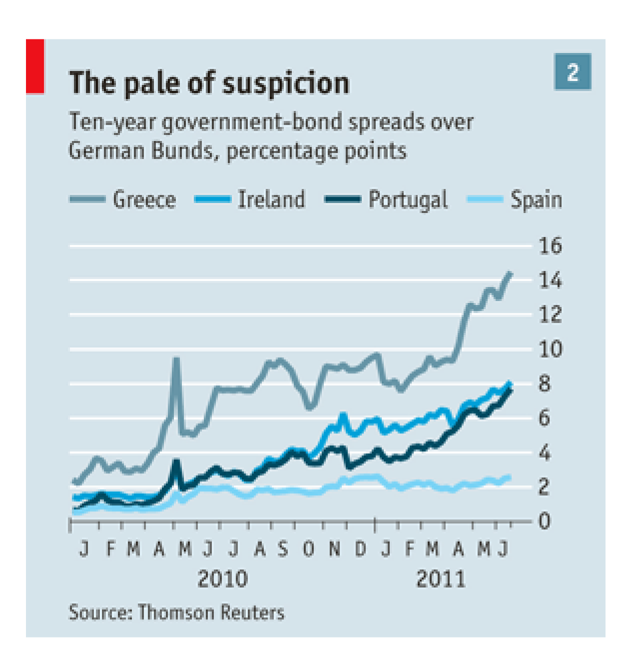
None of this seemed to matter during the first few years of the monetary union. While Germany went through a weak patch, the peripheral economies (Portugal excepted) flourished, thanks to the low interest rates that euro membership brought them. The elimination of exchange-rate risk unleashed cross-border lending, which built up large exposures among the banks in the lending countries while debt piled up in the borrowing countries.



The lending was on lax terms. Credit markets paid no heed to the risks that were building up from sustained big current-account deficits, which would have caused alarm in emerging economies (see chart 1). They smiled on Ireland's property boom, overlooked Portugal's slack growth and forgave Greece its poor public finances. Spain also benefited from dirt-cheap money even though it shared many of the same weaknesses, notably a housing-market bubble and a huge current-account deficit.

Weakness exposed

The flood of easy money disguised the hard truth that the competitiveness of the peripheral economies, gauged by measures like unit labour costs, had steadily worsened after joining the euro. This deterioration came from a poor starting-point, for Greece in particular. As one senior negotiator in the bail-out talks laments, Greece is part of the single-currency area even though it has managed in effect to stay out of the single market. With the lowest exports-to-GDP ratio in the euro area, membership became a way to import cheap goods on the never-never rather than a means to foster higher productivity. Ireland, with exports now roughly equal to GDP, is quite different, but Portugal also has a lowish exports-to-GDP ratio for a small economy within a single-currency zone and, like Greece, has insulated much of its economy from the single market.



Once the credit machine went into reverse as the financial crisis broke in the summer of 2007, the underlying weaknesses of the peripheral economies were exposed. The debt that had piled up in the good years became oppressive once lenders scented trouble. Spreads on government bonds over safe German Bunds, which had earlier narrowed to wafer-thin margins, ballooned out (see chart 2). Ireland had what looked like impeccable public finances, with government debt as

low as 25% of GDP in 2007, but these were flattered by swollen property-market taxes and then swamped by the costs of propping up banks that had gone on a bender, the bill for which is now reckoned at 42% of national output. As a result, the debt burden will reach 112% this year, according to the European Commission's May forecast. Portugal's, too, will vault above 100% of GDP, while Greece's will rise to almost 160% (see chart 3).



Fundamentally, then, the crisis that has engulfed three countries is rooted in a severe loss of competitiveness combined with levels of public debt that look unsustainable in the case of Greece and worryingly close to that for Ireland and Portugal. The rescue packages are accordingly trying to shake up the sclerotic economies of Greece and Portugal through sweeping changes to liberalise markets controlled by producer interests. The priority for Ireland's more flexible economy, which has been regaining some of its lost competitive ground, is to finish healing its banks. All three economies are having to push through harsh austerity measures to create primary budget surpluses (ie, before interest payments) that will stabilise debt. As long as the three live up to their side of the bargain, the European creditor nations, led by Germany, have been prepared to provide bridging finance.

Voter resistance

The bail-out strategy made some sense in May 2010, since banking systems were still weak after the convulsions of 2008, exposures to Greek debt were not well mapped out and private creditors had had little time to adjust their positions. But it has lost credibility over the past year as Ireland and Portugal have also succumbed, and as markets have concluded that a bail-out will fail to put Greek debt, in particular, on a sustainable path.

Inherently, there are two conflicting economic tensions in the rescue packages. The first is that the austerity programmes needed to cut deficits are killing the growth needed to make debt bearable. If Greece had got into trouble outside the euro, the drachma would have fallen, creating an external offsetting boost to the economy by making exports cheaper and curbing imports. The other inherent tension is that the steps needed to improve competitiveness within the euro require prices and wages to be held down, making it even harder to cope with debt.

There are also conflicting political forces within both the borrowing and lending countries. The Greeks are not alone in feeling resentful about having to pay so high a price for past misdemeanours. Many Irish now see themselves as victims, paying a penalty for having done a favour to other European countries by propping up their banks and thus preventing losses by foreign bondholders that had lent to them. If the mood turns sourer, it may be harder for the new Irish government led by Enda Kenny to push through the further austerity that is needed.

Lender countries are also becoming restive. The recent general election in Finland propelled a loan-refusenik party, the True Finns, to third place in the polls. In Germany a majority of the public thinks that the original rescue of Greece was a mistake. On June 10th the ZDF Politbarometer showed 60% rejecting further assistance and only 33% backing it. A poll in April showed an overwhelming majority fearful that more countries than Greece, Ireland and Portugal will require help.


Protest art in Syntagma Square

This stroppiness means that one solution to the debt crisis is a non-starter. Sharing budgetary resources, either through direct transfers or through the issue of "E-bonds" underwritten by the euro area's taxpayers, is anathema in Germany, where the notion of a "transfer union" in which the better-off subsidise the worse-off is political poison, not least because of the vast transfers from western to eastern Germany since reunification. Northern taxpayers would also recoil from the idea of a future "ministry of finance of the union" which Mr Trichet recently floated.

An alternative course would be to try to make a "no bail-out" model work. Jordi Gali, an economist at Pompeu Fabra University in Barcelona, would ban collective rescues and stop trying to patrol euro-area states through debt and deficit limits. Instead he would leave the job of policing their public finances to investors. This would require recapitalisation of European banks so that they could withstand sovereign defaults, but that is not the only snag. The pass has already been sold. Investors know that when a banking crisis looms, European governments will flinch and extend taxpayer support.

Both these courses of action at least offer clear paths forward. By contrast, the long-term reforms set out by European leaders in March fall short of the comprehensive solution they purported to provide. Under a "pact for the euro" there will be economic and fiscal workouts that will allow countries to cope better with the rigours of monetary union-including, for example, greater wage flexibility. They will have to put into law their determination to get a grip on public finances. The temporary support measures will be turned into a permanent "stability mechanism" with an effective lending capacity of euro500 billion that will be available to countries only if their debt is deemed sustainable. Private bondholders are served notice that they will be at risk from mid-2013 when the new regime comes into force.

In effect the reforms formalise the bail-out strategy, but try to ensure it will not have to be used again and leave open the possibility of restructuring. One objection is that the pressure remains on deficit countries within the euro area to put their houses in order, whereas none is brought to bear on surplus countries such as Germany. But the bigger worry is that the reforms will be overtaken by events.

The European summit on June 24th seems unlikely to get on top of things. Even if private bondholders can be made to share in some of the pain by rolling over their debts, this will still leave Greek public indebtedness unsustainably high. As long as that is so, markets will continue to bet on an eventual default. The pre-summit wrangling has only served to

underline the extreme difficulty of reaching any solution that can be sold successfully to voters. The Greek protests have forcibly made the point that debt sustainability is ultimately a matter of political resolve.

At best, European leaders may buy more time. But the markets have a different timetable from the politicians, and their scepticism may continue to undermine the weaker economies by hurting their banks. Though the ministers will doubtless go on talking, it is increasingly hard to see a safe way out of this crisis.

Index | United States

Election boundaries

No more packing or cracking

California's new way of drawing political maps could become the model for the rest of America



ONE lowly state senator from southern California, upon seeing the state's new electoral maps and realising that no incumbent member of Congress currently lives in a district to be drawn around her home, spontaneously declared: "I'm in, I'm in, I'm in, I'm in," and thus became a candidate for the House of Representatives in Washington, DC. Other state senators, assemblymen and US representatives were rather less effusive. Several suddenly found themselves sharing a district with political allies who may now become rivals, or facing a much less sympathetic electorate.

This chaos among California's incumbent politicians is a good sign. For the new lines of 177 districts, released on June 10th and to be finalised by August 15th, were drawn, for the first time, by a genuinely independent commission of citizens, not by state legislators. The panel's mandate is to make compact, contiguous districts that preserve natural "communities of interest" such as ethnic groups, and to ignore politics altogether. The commissioners do not even have voter-registration statistics or the addresses of incumbents. The revolutionary new idea is that, instead of politicians choosing their voters, voters should choose their representatives.

This marks a dramatic change in the history of American democracy. The practice of rapacious boundary-drawing dates back to the Founding Fathers. Patrick Henry, who famously demanded liberty or death, tried to draw a congressional map of Virginia to deny his foe James Madison election. In 1812, the partisans of Elbridge Gerry, then governor of

Massachusetts, drew a state-Senate district so bizarre that its salamander shape led to the term "gerrymandering", which persists to this day.

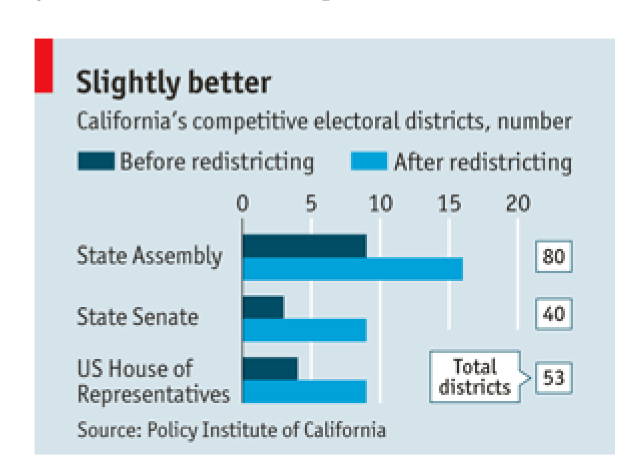
By contrast, a related flaw, called malapportionment, was largely fixed in the 1960s. Until then, districts across America had very different populations but equal representation, so that some (mostly rural) communities were over-represented in legislatures and Congress, while others were under-represented. But in 1964 the Supreme Court enshrined the principle of "one person, one vote". It requires districts to have the same population, so that their boundaries must be redrawn after every census (ie, once a decade).

Because most states still let their legislators do this redrawing, gerrymandering has remained a problem. In democracies with proportional representation (as in continental Europe), maps are not very important. But in America's "winner-takes-all" system, where the candidate with a plurality of votes becomes the representative and all other votes count for nothing, maps are crucial. Thus legislators like to draw lines that, in the jargon, "pack" more of their supporters into one district to make it safe, or "crack" a hostile block of voters into several districts, and so, with many variants, forth.

Such gerrymandering can be extremely partisan when the majority party in a legislature draws districts that favour its candidates, as the Republicans did in Texas a decade ago. But it can also happen on a bipartisan basis, when both parties agree on maps that favour the incumbents. California's legislature did this in 2001, producing cynically squiggly districts that made most of the seats safe for whichever Republicans or Democrats already held them. In the 612 races of California's last four elections, only seven seats have changed from one party to the other.

Over the years, several states have tried to scrub their maps clean of such shenanigans. Iowa was first in 1980, making redistricting largely apolitical, although the legislature must still approve all maps. But Iowa is a homogenous and geographically simple state, and its system was not copied. Some 19 other states, aside from California, have established commissions, either as the main mapmakers or as advisers to the legislature. But most of these panels are still, one way or another, appointed by politicians, with varying degrees of independence. Arizona's commission, the result of a ballot measure in 2000, was the most promising, but its maps were fought over for seven years in the courts.

So now comes California's reform, which could be "the great experiment that other states will follow", according to Tim Storey, a redistricting analyst at the National Conference of State Legislatures. Also approved directly by voters, in two separate ballot measures, this commission consists of 14 members, chosen in a complex but rigorous process, partly by lottery. In its diligence and transparency, it has been above reproach.



The hope among many voters, of course, is that more districts will thereby become competitive, forcing politicians to become more moderate. It helps a lot that California has also adopted a non-partisan primary system with the same aim. Analysis by the Public Policy Institute of California, a think-tank, shows that the maps do indeed make several additional districts toss-ups (see chart), with Democrats benefiting slightly more.

On the other hand, Californians may also have set themselves up to be disappointed, says Paul Mitchell at Redistricting Partners, a consultancy. The new system is certainly "shaking up the ant farm, but it's still an ant farm," and political extremism has many causes, not just gerrymandering. One only needs to look at the US Senate, whose members are all elected statewide, and therefore not gerrymandered at all, to see that. But at least from now on voters are a bit more likely to feel that they had a genuine choice, and that they deserve what they chose.

School funding

Public good, public cuts

State budget shortfalls will bring a raft of cuts to public schools



It all helps

IN 1783 Noah Webster, a schoolteacher, published the first edition of his American spelling book. It would become a standard text in classrooms around the country, selling 60m copies over the course of the next century. Webster's view was that the new country deserved its own approach to English, more accessible than the version it had inherited. For Webster and his followers, literacy was a democratic goal as much as a pedagogical one.

That vision of public education is a compelling one, although America has often fallen short in its pursuit of the ideal. This makes it troubling that many cities and states, struggling to make up budget shortfalls, have put schools on the chopping block. In Texas, for example, legislators expect $4 billion in cuts for schools over the next two years, a 6% decrease from the state's projected funding formulas for 2012. The state convened a special legislative session to hash out the details, after a Democratic state senator filibustered the legislation in the regular session.

The cuts are also meeting resistance from pupils, teachers and, in some cases, the courts. In Los Angeles the teachers' union voted in favour of salary cuts, an effort to save jobs. Republicans in Michigan have complained that they are getting emotional letters from kindergarteners. Last month a New Jersey judge issued a report declaring that 36% of the state's schools are inadequately funded, given the obligations laid out in the state constitution-so Governor Chris Christie's budget for the current fiscal year, which would cut $800m, should not have passed muster.

Despite these efforts, most states will see at least some cuts, adding up to billions of dollars around the country. These will come from thousands of minor economies, which will be readily apparent when schools reopen in the autumn-among those that do reopen, that is. Classes will be more crowded, school-bus rides longer. Baseball may be cut to keep football going. Latin will be even rarer-and forget about adding Mandarin this year.

Some schools are now charging fees for certain classes or activities, a startling trend that violates some basic ideas about what public schools are supposed to do. The idea of asking people to chip in for schools is not unprecedented, but it is usually a bit more subtle. Elementary-school teachers ask their pupils to buy school supplies; high-school students sell cupcakes and wash cars to raise money for the prom. Parents may supplement a child's education with extra services-a tutor, a week at lacrosse camp, a second-hand car, a new silver trumpet rather than the borrowed cornet, glottal with generations of spit. Asking pupils to pay fees for core activities or classes seems much worse. These services may be for individual students, but public schools are a public good.

Projected cuts around the country will bring forward some deeper questions about school finance. As it is, Americans already pay for public schools by virtue of where they live; schools are partly funded by property taxes. The richer the parents, the better the schools, or at least better resourced. That is a fundamental inequity of the American system, not a new one.

A broader question is whether money is the best way to improve schools. A 2008 study from the Centre on Reinventing Public Education at the University of Washington found that spending on schools, adjusted for inflation, increased by 29% between 1990 and 2005, without a commensurate gain in pupil achievement. Better strategies may not be more expensive. The cuts may force states to think creatively. That would be some consolation.

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Consumer labelling

Food fights

The government tries to improve the nation's eating habits



It's good for you, really

"ENJOY your food, but eat less." "Avoid oversized portions." "Make half your plate fruits and vegetables." This is not advice from your mother, but carefully crafted, consumer-tested wisdom from the United States Department of Agriculture (USDA). Earlier this month the USDA and Michelle Obama, the first lady, unveiled these messages and a new dietary icon. "MyPlate" shows a table setting with portions of fruit, vegetables, grains and protein, with a small side-order of dairy. The image is supposed to represent a healthy diet. For many Americans it might as well be a meal from Mars.

It is no secret that a lot of Americans eat rubbish. MyPlate is just one piece of a broader effort to promote healthy foods. The Food and Drug Administration (FDA) is considering new health labels for the front of food packages; a committee at the Institute of Medicine will meet again to study the idea on June 20th. Four federal agencies have proposed new guidelines for food marketing to children; companies are furiously preparing comments ahead of a deadline on July 14th. There is lots of activity. Progress, however, will be slow.

Mrs Obama is waging a multi-front war against childhood obesity. Few would object to vegetable gardening and hula-hooping, but efforts around marketing food are more contentious. MyPlate is the least divisive project. The USDA issued new dietary guidelines in January; MyPlate will help to convey those guidelines to the average consumer. MyPlate is a vast improvement over the last dietary icon, an incomprehensible colour-coded pyramid. MyPlate presents a clearer message and stresses the importance of fruits and vegetables. But it may have little effect. The government regularly issues dietary guidelines. Consumers regularly ignore them. In 2007-08 the average adult consumed about half the recommended servings of fruit and vegetables and nearly twice the upper limit for solid fats and added sugars.

It does not help that Americans are bombarded with other health messages. Particularly confusing has been the proliferation of health icons that adorn food packaging. In 2004 PepsiCo, for example, launched a "Smart Spot" logo. Kraft launched a green "Sensible Solution" tag in 2005. The American Heart Association adorns certain products with a "heart check" mark. Each of these icons has its own nutritional criteria, some grossly misleading. Big food companies endorsed a common "Smart Choices" label, only to abandon it in 2009 after outcry over its use on Cocoa Krispies and tubs of Hellmann's Real Mayonnaise.

That year the FDA began studying whether a standard for such labels might help to distinguish healthy foods from junk ones, as is the case in Britain. But America's food industry pre-empted the FDA by launching its own "Nutrition Keys" labelling system in January. The FDA's effort is still crawling forward.

A fight over advertising, meanwhile, is heating up. In 2005 the Institute of Medicine found that television advertising influenced young children to prefer unhealthy foods and drinks. In 2009 Congress asked a working group of four federal agencies to devise guidelines for food marketed to children. In April the agencies presented voluntary guidelines, at last. Their proposal would bar companies from advertising products to children that fail to meet strict nutritional standards. The guidelines would cover virtually all types of marketing, from television ads and video games to promotions in schools and supermarkets.

The food industry claims that its own campaign, the Children's Food and Beverage Advertising Initiative, has reduced junk-food ads and that few products would meet the government's standards. "Unworkable," Elaine Kolish, the initiative's director, says of the new guidelines. The fight may drag on. Congress originally asked the agencies to issue their recommendation by July 2010. Meanwhile, American children continue to gobble up sugar and fat. Nearly one-third of them are overweight or obese.

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Casinos for Chicago

Las Vegas of the Midwest

A new bill may bring (legal) gambling to the Windy City



IN THE 1920s Al Capone controlled Chicago's underground gambling dens, and for decades thereafter the city has shied away from the whole business. But Rahm Emanuel, Chicago's newly minted mayor, is determined to open a publicly-owned casino to help fill his empty coffers. So, with City Hall's strong support, the state legislature passed a bill expanding gambling in Illinois on May 31st. It needs the governor's signature-but Pat Quinn is hedging.

The bill would add four new casinos, as well as Chicago's, in southern Illinois and would allow statewide video gambling. Betting would be permitted in bars, restaurants and petrol stations. Racetracks and perhaps airports could have slot

machines. Mr Quinn thinks the bill is "excessive", so may not go all in. But the state's finances are down to the felt, with the deficit expected to hit $11 billion. Most likely, he would tweak the bill with an "amendatory veto", taking out the elements he dislikes.

New revenue is badly needed in Chicago, too. Mr Emanuel inherited a $587m shortfall in the 2012 budget. The Chicagoland Chamber of Commerce (which covers the city and its hinterland) reckons a big Chicago casino would bring $650m in gaming revenue a year for the city as well as 2,500 permanent casino jobs and 1,500 temporary construction jobs. It could generate a further $130m in non-gaming revenues. Gerald Roper, the chamber's president, is wagering shops like London's Harrods and shows like "Cirque du Soleil" will bet on Chicago.

The chamber, along with the city's convention and tourism board, wants the casino to be located downtown. The old Congress Hotel across from Millennium Park is rumoured to be a possible location, but Mr Emanuel keeps his cards close to his chest. Another whispered location is Block 37, a newish building across the street from Daley Plaza.

City Hall is unlikely to run "The House"; it will farm out the operation to people rather more experienced at this kind of thing. The regulatory cost and the potential for corruption worries the Reverend Phil Blackwell, of the Taskforce to Oppose Gambling in Chicago. "The city should serve and protect, not be a dealer," he says. William Thompson, of the University of Nevada in Las Vegas, says gambling will help the city's overall pot, but not necessarily the economy: "It could shift the spending from local attractions to the casino."

Revenues at the nine existing casinos in the south of Illinois are down by 32% over the last three years, according to the Illinois Casino Gaming Association. The new casinos could hurt what the association sees as an already saturated industry. As much as Mr Emanuel hopes for a jackpot, gambling is never a safe bet.

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Agriculture and immigration policy

A hard row to hoe

Georgia's immigration bill will hit farmers where it hurts



The war on onions

ATLANTA may sprawl, but drive a little way south or east and head off the main highways, and you will see that what really powers Georgia is not its biggest city, but its farms. Agriculture is the state's biggest industry, employing 13% of the state workforce, and generating $11 billion a year at the farm level and $69 billion overall. In 2008 Georgia produced more broiler chickens, peanuts, pecans, rye and spring-harvested onions than any other state.

Most of those onions were Vidalias-a sweet variety grown in the sandy, low-sulphur soil of south Georgia, and protected by federal trademark. And most Vidalias are harvested by hand, by workers such as Edilberto, who came north from Mexico to work in the fields. He has picked onions and other crops in south Georgia for 16 years. His three children were born here. And this summer he plans to leave Georgia to look for work in North Carolina. He will not be alone.

On July 1st Georgia's new immigration law is scheduled to take effect. It empowers police to check the immigration status of criminal suspects. It requires employers with ten or more employees to check the immigration status of newly hired workers on a federal database (employers must currently verify that applicants possess the right documents; they do not have to verify the documents' authenticity). Applicants for public benefits must provide "a secure and verifiable document" of identification and must swear that they are in the country legally.

Critics say the bill is unconstitutional, and indeed a federal judge will hear those charges on June 20th and may stop the law from taking effect. A federal judge blocked parts of Arizona's anti-immigration law, which Georgia's measure echoes, last year. But Matt Ramsey, one of the bill's sponsors in Georgia's legislature, maintains that "there is nothing in this bill that anyone here legally has to worry about."

He may or may not be right, but as far as the state's agriculture sector goes, it may not matter. Precise figures are hard to come by, but according to Erik Nicholson, national vice-president for the United Farm Workers' union, as many as 70% of American agricultural workers may be undocumented. According to the Pew Hispanic Centre, in 2010 Georgia had around 425,000 such immigrants, putting it seventh among American states.

It may now have fewer: 46% of respondents to a recent survey conducted by the Georgia Agribusiness Council said they had too few workers. Some reported that workers had left or were planning to leave for other states by July 1st. And though that may be welcome news for politicians such as Mr Ramsey, it could portend disaster for farmers. According to Charles Hall, director of Georgia's Fruit and Vegetable Growers' Association, harvest crews during the busy months of May and June had between half and two-thirds as many the workers they had last year. Migrant-worker crews follow the harvest north from Florida; this year many seem to be skipping Georgia. He estimates that the state's $1.1-billion fruit-and-vegetable industry could suffer a $300m loss.

Nathan Deal, Georgia's governor, who signed the immigration bill into law, came up with a novel solution on Tuesday: give the jobs-of which there are around 11,000, according to farmers who responded to a survey by Georgia's agriculture department-to unemployed probationers. How that will work in practice remains unclear. Nobody can force farmers to hire felons. And people on probation must seek work but can decline job offers, such as those requiring hard physical labour in the sweltering midsummer. As for the departing workers, Bryan Tolar, who heads the Georgia Agribusiness Council, says, "I don't know if they were legal. All I know is they were working."

Renewable energy in the north-west

Tilting at windmills

Teething troubles in the clean-energy sector



An embarrassment of riches

THE melting snows of spring and early summer are justly celebrated by Aaron Copland and Walt Whitman. But they are causing a lot of trouble in the Pacific north-west, as a federal power agency pushes private wind turbines off the grid in what critics call a case of favouritism towards electricity generated by federal dams.

The region's windpower companies are enraged and are petitioning the regulators. Encouraged by politicians and their subsidies, they have invested hundreds of millions of dollars over the past six years on a 14-fold increase in generating capacity. But this year, as an unusually large snowmelt surges into the rivers of Oregon and Washington, the wind lobby is howling about government perfidy. "You can't trust the guy who is running the grid," says Robert Kahn, executive director of the Northwest & Intermountain Power Producers Coalition.

The guy in question is the Bonneville Power Administration (BPA), a venerable federal bureaucracy that markets power from 31 federal dams in the Columbia river basin. Thanks to monstrous chunks of concrete like Grand Coulee Dam, completed 70 years ago and still the largest hydroelectric facility in North America, the north-west gets more of its power from hydro than any other region of the United States.

BPA managers say near-flood conditions in the Columbia river-and strict laws protecting the river's endangered salmon-give the agency no choice but to disconnect the windmills as it grapples with a large power surplus. Not making electricity is not an option on the river, the BPA argues, because only a limited amount of water can be kept out of turbines and spilled over federal dams. Too much spill dissolves too much nitrogen in the river, which can kill migrating salmon. There is a particular irony in the agency's concern about fish, since the development of the hydroelectric system is largely responsible for destroying the Columbia as one of the world's great salmon highways.

Be that as it may, in the early morning hours of May 18th, BPA did something it has never done before. It took all the region's wind turbines offline for about five hours and it expects to continue to pull the plug on them for a few hours almost every night until well into July, when enough snow in the Cascades and northern Rockies will have melted for the excess run-off (and therefore the excess power) to subside. Until then the BPA will be giving electricity away, and paying the transmission costs of utilities willing to take it.

The clean-energy glut was predictable, given the tendency of snow to melt in the spring and given whopping increases in the region's wind-generating capacity. Since 2005 wind capacity has surged from 250 megawatts to 3,500 megawatts, and is expected to double again by 2014. More effort by BPA to link this new capacity to grids in California and British Columbia could have avoided the need to idle those wind turbines, or so a number of power experts reckon.

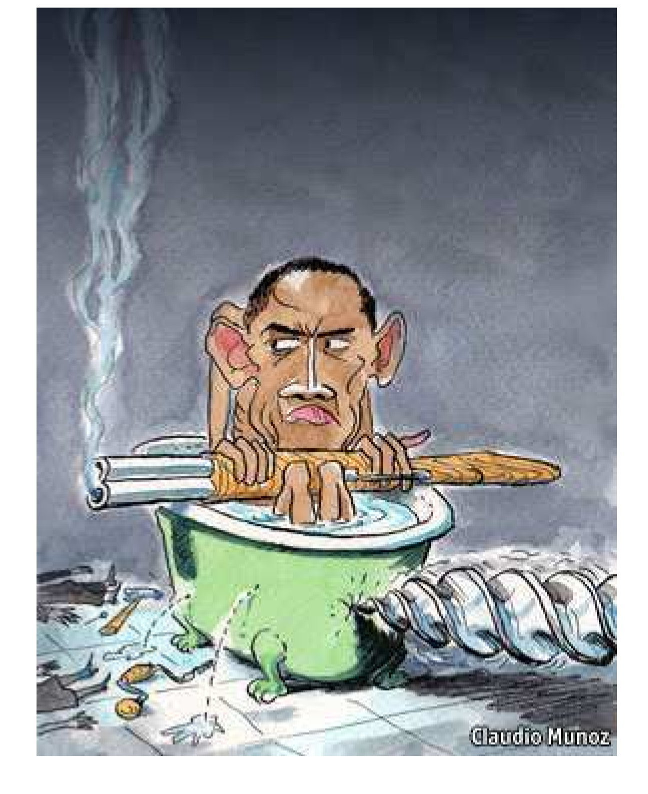
"The crime is that we have been nearsighted," says Angus Duncan, chairman of Oregon's Global Warming Commission. "We are not thinking as far ahead today as we did in the 1930s and 1940s, when we started building dams."

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Classified information

Return of the plumbers

The Obama administration is waging war against leakers



HENRY KISSINGER said he "must be stopped at all costs". Richard Nixon was more blunt: "We got to get this son of a bitch." And oh, how they tried, creating a team of operatives whose dirty tricks would eventually sink the president himself. But Daniel Ellsberg proved an elusive target, and anyway his work was already done. Forty years ago this week the *New York Times* began publishing the Pentagon Papers, the largest leak of classified documents in American history until WikiLeaks came along.

Julian Assange's outfit is Barack Obama's problem, and though the current administration lacks the vindictiveness and criminality of the Nixon White House, it has pursued leakers with just as much vigour. After promising the most transparent administration in history, Mr Obama and his Justice Department have pressed criminal charges against five suspected leakers under the Espionage Act, more than all other administrations combined, including Nixon's.

Its efforts, so far, have had mixed results. Three cases are still pending, including that of Bradley Manning, who is accused of leaking a trove of classified documents to WikiLeaks, which itself is under investigation by a grand jury. Mr Assange may be the administration's great white whale, but last year it netted a smaller fish when it sent an FBI linguist, Shamai Leibowitz, to prison for 20 months for passing secret documents to a blogger.

More recently, though, the government has watched its case against Thomas Drake collapse. Mr Drake, a former official at the National Security Agency (NSA), tried to report mismanagement and illegalities at the agency to government officials, but was ignored. He then went to the press. The government charged him with misappropriating classified material, though he denied he had shared any secrets. Prosecutors, wary of revealing sensitive material in court, tried to tempt him with a generous plea deal, but he held out until last week. Originally facing up to 35 years in prison, he will now receive a much milder sentence, perhaps including no time in jail.

The government's aggressive pursuit of Mr Drake confounded advocates of open government. In the eyes of many, his attempts to expose waste and wrongdoing at his agency make him a whistleblower. And although the law does not compel the government to differentiate between good leaks and bad leaks, Mr Obama has praised whistleblowing in the past, arguing that "such acts of courage and patriotism...should be encouraged rather than stifled."

Others accuse the administration of having a double standard. Among the three cases still pending, Stephen Kim, a former State Department contractor, is accused of passing classified information about North Korea to Fox News. But his disclosures pale beside those in Bob Woodward's book "Obama's Wars", which were evidently leaked by far more senior officials. "How can it be in the US government's interest to pursue Mr Kim in the manner it has and allow this much more blatant event to go unaddressed?" asked Abbe Lowell, Mr Kim's lawyer, in a letter to the Justice Department.

A bigger problem still is overclassification. Americans have been able to read most of the Pentagon Papers for 40 years, but the documents were declassified only this week. Similarly, many of the dispatches allegedly leaked by Mr Manning are still considered government secrets. And the Obama administration has only made things worse. According to the Information Security Oversight Office, a government agency, the administration created 224,734 new secrets in its first year in office, up 22.6% on the year before.

Even as the administration strives to keep secrets, it can still claim to have made some progress towards greater openness. Government agencies are putting more information online, and many have cut into the backlog of Freedom-of-Information-Act requests. Last year Mr Obama declassified the size of America's nuclear arsenal and this year he revealed his intelligence budget request. In March the president even received an award from the open-government community. To the chagrin of the presenters, the event was closed to the press. But word leaked out.

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Lexington

It's that time, already

A gaggle of would-be presidents start the hard slog of chipping away at the Granite State



THEY call him a pizza mogul so here he is, the day before the big debate, working the room in Sal's Pizza in Manchester, New Hampshire. Herman Cain is plain "black"-he does not like to be called an African-American like Barack Obama, but like the president he has an only-in-America life story. The poor black boy born in Memphis 65 years ago made good and built what his campaign calls a "multidimensional" life that has included being, literally, a rocket scientist for the navy, turning around the Godfather pizza chain, hosting his own radio talk show and running the National Restaurant Association. One fan in Sal's calls him "part Ronald Reagan, part Lewis Graham, part Martin Luther King and 100% rock star". Now Mr Cain wants to be president.

Why? Blame God, in part. Mr Cain, signing a customer's pizza box, adds a reference to Matthew 25:24, the parable of the talents. After recovering from cancer, he explains, he is putting his own talents at the nation's disposal. How does he know that God helped save him? Hell, why else was the doctor to whom he turned named Lord and the nurse who greeted him

named Grace? To cap it all, the surgeon who fixed his colon and liver did it by making a single incision and then working through the body in the pattern of a J. Providence indeed.

Here on the same day, at Halligan Tavern in nearby Derry, a bigger crowd has crammed the upstairs bar to see Tim Pawlenty. The former governor of Minnesota is looking casual and yet somehow presidential in a yellow shirt and jeans. He has a ready smile and a twinkle in his eye. But when he starts his riff the claws come out. He is running for president because Mr Obama has failed America. The change the president promised was not for the better. Unemployment is soaring, spending is out of control and the president does not have an economic plan.

Mr Pawlenty, however, is willing to tell unpopular truths. Hasn't he already told Iowa that it has to phase out ethanol subsidies? And seniors in Florida that Social Security (pensions) needs reforming? In the coming months, he says, a lot of Republican candidates are going to be marching into bars just like Halligan's promising just the same things. They will all pledge to cut spending, taxes and regulations and make the economy grow. The question for voters is whom they can trust, who has actually matched words with deeds. That person is himself. His record as a red governor of blue Minnesota is there for all to see. "I'm running for president of the United States because I love this country and I've got the record of results to get this country back on track," he declares.

Every four years presidential races begin this way, with little encounters in pizza places, bars, picnics and house-parties. The race will grow relentlessly bigger until on November 6th next year the whole planet watches America's decision. And if (as the locals do) you disregard those pesky caucuses in Iowa, it always starts in New Hampshire. As the "Almanac of American Politics" marvels, a state with 43 one-hundredths of 1% of America's population becomes "the epicentre of the political universe" merely by having its primary first. Next year's date is not yet fixed. It will probably be in the deep snows of mid-February, the better part of a year before the nation finally chooses a president. But New Hampshire has empowered its secretary of state to move it earlier if some upstart, such as Florida, tries to jump the queue.

Candidates claim to like the face-to-face retail politics of New Hampshire. It is probably a lie. Wooing the Granite State is fiendishly hard. The little place has one of the world's biggest legislatures, with more than 400 members, and voters expect to meet politicians in person. More than 40% are independents, but are allowed to vote in the primary. They are late deciders but insist on inspecting presidential candidates early. Those who think they can buy or bypass New Hampshire crash and burn. That is why even Jon Huntsman, the former ambassador to China who is about to join the race but skipped the debate, has already been all over the state, eating barbecue and riding his Harley.

It is the night of the debate. Six of the men (Mitt Romney, Ron Paul, Newt Gingrich, Rick Santorum, Messrs Cain and Pawlenty) and one woman (Michele Bachmann) seeking the Republican nomination have come to duke it out in Saint Anselm College outside Manchester-a fixture in the political calendar every bit as thrilling to the political class as the Super Bowl is to normal Americans. A throng of reporters watches on monitors from a cavernous hall on another part of the campus. Behind them is the curtained-off "spin room", containing seven platforms from which the candidates' spin doctors will strive later to explain away flubs and claim victory for their own man or woman.

How was it for you?

It is the morning after. Mr Cain is glum. "Basically, they shut me down," he tells your columnist in a post-mortem in the Hilton Garden Inn. He had much more to say about how he would fix the economy but never got the chance. For the moment the media's attention has swivelled away. There were no great gaffes or coups. But most pundits are talking about the impressive national debut of Mrs Bachmann, the congresswoman from Minnesota who may now have displaced Sarah Will-She-Or-Won't-She Palin as the champion of the tea-party movement, and the perplexing refusal of Mr Pawlenty to press home his "Obamneycare" attack on Mr Romney for having invented in Massachusetts a version of Mr Obama's reviled health-care reform.

Mr Romney himself is up early, working the breakfast crowd at Blake's Restaurant. He is still considered the front-runner and trying to look relaxed-you cannot appear tense if you want to be president-but you can imagine his inner torment. There are, after all, only 510 days to go before America votes.

Economist.com/blogs/lexington

Venezuelan politics

Troubles on two fronts

The president will need to overcome his own health problems and a vigorous opposition to win re-election



HUGO CHAVEZ is unwell. The normally voluble, hyperactive Venezuelan president is running his country from a hospital bed in Havana, following an emergency operation on June 10th to deal with a "pelvic abscess" that interrupted the latest of his many official visits to Cuba. Quite what caused the abscess, or exactly how severe it was, has not been revealed. Officials say it is unrelated to the gammy left knee that had already slowed the president down in recent weeks and required him to use a cane. Mr Chavez continues to sign decrees, and his closest aides maintain that he is on the mend and will soon be back in Venezuela. The opposition has asked whether Elias Jaua, the vice-president, should be made acting president, but Mr Jaua says that is unnecessary.

Mr Chavez's medical difficulties may well be exceeded by his political ones. Venezuela is in the throes of a presidential campaign that does not officially begin until next year. The opposition Democratic Unity coalition is due to choose its candidate in February. Assuming the government does not tamper with the timetable-which is by no means guaranteed-the election will be held in December 2012. But one issue already overshadows all others in this divided nation: can the former army officer, who has been in power since 1999, win a third six-year term?

Having been mired in recession for the past couple of years, and plagued by inflation of close to 30%, the country has recently returned to growth. Thanks in part to higher oil prices, the government is optimistically projecting a 4% rise in GDP this year, although private-sector estimates are around half that rate. Even if growth remains modest, Mr Chavez has squirrelled away billions of dollars in unaudited public funds, and should be able to pay for a pre-election spending binge.

He has already been campaigning for months, having won approval in 2009 for a constitutional amendment that removed presidential term-limits. There is no need for primaries, he said recently, "because it is well-known that I have assumed the responsibility of once again being a candidate for the presidency." With all the petro-state's resources at his command, the gift of the gab and the power to force the broadcast media to carry his long-winded speeches live, he is a formidable

opponent. But if the polls are to be believed, this election will be no walkover, even assuming Mr Chavez quickly returns to health.

The president himself has pointed to polls from a government-linked outfit, GIS XXI, which gave him 51% support. That is impressive after 12 years in office, but is well short of the dominance he enjoyed going into previous elections. Less sympathetic analysts have noted that three-fifths or more of the electorate think he should step down in 2012. One survey found that the leading contender for the opposition candidacy-Henrique Capriles, the youthful governor of Miranda state, which includes much of greater Caracas-could beat him in a head-to-head contest.

The playing field, though, will not be level. In addition to his blatant use of state resources for his campaign, Mr Chavez enjoys a stranglehold over the electoral authority. Many state employees believe the government knows how they vote, a concern that will only grow if a proposal to equip electronic ballot machines with fingerprinting devices is approved. There is good reason to fear reprisals for supporting the opposition: in the years following a 2003 signature-collection drive that required Mr Chavez to face a recall election, many public employees who signed the petition were fired, or denied loans or official documents such as passports.

The government has also harassed potential opposition candidates. In 2004 Mr Capriles spent four months in detention for entering the Cuban embassy during an attempted coup against Mr Chavez in 2002. The case still hangs over him. Leopoldo Lopez, who leads the Popular Will party, has been banned from standing because of flimsy corruption charges, and Manuel Rosales, who ran against Mr Chavez in 2006 and faces similar charges, is in exile. Antonio Ledezma, the mayor of Caracas and another declared candidate, has been stripped of nearly all of his powers and seen his budget slashed.

The president's latest ploy to undermine his rivals is the deployment of special central-government units with military-sounding names to some of the states most damaged by recent heavy rainfall. The squad sent to Miranda is led by Mr Jaua, who frequently calls the centrist Mr Capriles a "fascist".

Perhaps the best indicator of the government's nerves, however, is the extent to which Mr Chavez's campaign promises have parted company with reality. After personally assuming responsibility for solving the country's huge housing deficit, the president has pledged to build 2m homes in the next six years. That is roughly eight times the average rate over the last decade. "I'm staking my hide" on achieving it, Mr Chavez declared-or at least on voters believing it for long enough to re-elect him.

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Corruption in Argentina

The mother of all scandals?

A once-revered human-rights group runs into a controversy



No longer a lily-white reputation

ONE of Nestor Kirchner's most popular ideas as Argentina's president in 2003-07 was having members of the country's 1976-83 military dictatorship retried for human-rights abuses. Among his closest allies was the Association of Mothers of the Plaza de Mayo, a group of women who for years defied the generals and staged weekly protests demanding to learn what had happened to their disappeared children. The group's reputation in Argentina has soured, owing to the leftist activism of its leader, Hebe de Bonafini, who has praised the authors of the terrorist attacks of September 11th 2001. But its distinctive white shawls remain a potent symbol of the quest for justice in Latin America.

Now the Mothers have attracted criticism for very different reasons, and at an inopportune time for Cristina Fernandez, Mr Kirchner's widow and successor as president. In 2006 they founded a social-work arm, called Shared Dreams, to build homes for the poor. Mr Kirchner provided an estimated $45m of public funds. For the construction work, Ms Bonafini hired Meldorek, a company owned by Sergio Schoklender, a friend and adviser who was jailed from 1981 to 1995 for murdering his parents.

Rival contractors soon complained that Meldorek was charging twice the market rate for homebuilding. The company's workers said it failed to pay pension benefits. Mr Schoklender called attention to himself by using a private jet and getting Meldorek to buy several luxury homes, a Ferrari and a series of yachts.

Rumours of improprieties at Shared Dreams have swirled for over a year. But they only entered the public eye in May, when Mr Schoklender left the organisation after feuding with his brother Pablo, who also participated in his parents' murder and in Shared Dreams. His departure led the media to pounce on the story. The courts are now investigating allegations of fraud, money-laundering and illegal enrichment. Mr Schoklender says Meldorek charged more than its competitors because its homes are bigger and better-equipped. His lawyer says there is no proof that the Mothers' money went missing.

So far, the scandal has not dented the popularity of Ms Fernandez, who must say by June 25th whether she will run for re-election in October. Pro-government media have painted both the Kirchners and Ms Bonafini as innocent victims of Mr Schoklender's alleged trickery. Ms Fernandez's first presidential bid in 2007 was barely affected by revelations of corruption in the building of gas pipelines during her husband's government. But although Ms Fernandez could easily distance herself from the construction companies involved in the gas scheme, she has long sought to wrap herself in the Mothers' shawls. That now risks becoming an embarrassment.

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Ecuadorean football

South America's sporting David

How the region's athletic overachiever has got ahead

FOR all Ecuador's woes, the small country is a giant-killer when it comes to football. The national squad has qualified for two of the past three World Cup finals. Antonio Valencia, a midfielder, inherited Cristiano Ronaldo's spot at Manchester United. And Quito's Liga Deportiva Universitaria (LDU) has recently bested far better-known Brazilian and Argentine teams in international competitions-even as Ecuador's entire top Serie A league, with estimated revenues of $40m a year, earns less than a few top players can in Europe.

Ecuador's turnaround began in 1988, when its football federation (FEF) hired a Montenegrin, Dusan Draskovic, to coach the national team. The FEF also shrank the first division from 18 clubs to 12 and required teams to use at least one player aged under 20 for at least half of every match, helping to develop young stars.

The next turning-point was the dollarisation of the economy in 2000. When Ecuador's sucre was in circulation, high inflation and a plunging currency made salaries impossible to calculate in advance. The greenback provided financial stability and made Ecuador attractive for foreign players and coaches.

LDU developed a blueprint for success as a club. It hired Chilean and Argentine coaches; signed disciplined team players with leadership ability; and built modern facilities to train them. "They know the prototype of player they want," says Martin Acosta, the son of the FEF's head. "They're buying distressed assets as a private-equity fund would."

The strategy has worked. LDU has won four Serie A titles since 2003. In 2008 it won the Copa Libertadores, the top South American club tournament, and nearly beat Manchester United in that year's FIFA Club World Cup. Thanks to a new stadium, ticket sales have boomed. Coca-Cola, Diners Club and General Motors have become sponsors.

LDU's rivals have not yet matched these achievements. Guayaquil's Barcelona SC is still Ecuador's most popular club, but it has tanked after overspending on foreign stars in the 1990s. Despite its officials' promises of a title, the club has not won the Serie A since 1997. Whereas LDU has had steady ownership and a disciplined budget, a leadership fight has kept Barcelona focused on the short term.

LDU's main rival is now Emelec, the favourite team of President Rafael Correa. Since 2009, when PDVSA, Venezuela's state oil giant, began sponsoring it, Emelec's payroll has risen by about 30%, according to a local players' agent. Mr Correa is an ally of Venezuela's Hugo Chavez. As in many other industries, the best way for a weaker competitor to gain an edge is to get the state on its side.

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China

Vote as I say

Independent candidates for elections appear to be a spontaneous step too far for the Communist Party



"A LIVE-FIRE exercise in democracy" is how one of China's sparkier newspapers hailed a recent move by dozens of citizens to promote themselves online as independent candidates in forthcoming local elections. Communist Party officials, unnerved by Arab revolutions and sporadic unrest in the provinces, are far less jubilant. Voting rituals long choreographed by the party suddenly face a new challenge from the internet.

Elections at the lowest tier of China's multi-layered parliamentary structure are the only ones in which citizens can directly vote for their legislators. But the party likes to leave nothing to chance. Citizens can, in theory, stand for election with support from ten fellow constituents. In practice, the party usually ensures that only its endorsed candidates make it to the shortlist. Ordinary Chinese often refer to the "people's congresses", as the legislatures are called, as mere ornamental "flower vases".

So a flurry of internet-fuelled enthusiasm for such polls has attracted considerable attention, including in some state-owned media (to the disquiet of propaganda officials, say Chinese journalists). Li Fan of the World and China Institute in Beijing, thinks that more than 100 people have declared themselves as candidates in recent weeks for elections for people's congresses that are due to be held around the country in the coming months. They have mustered support using microblogging tools such as Sina Weibo, a hugely popular Twitter-like service.

Even a hint of spontaneity in legislative elections can make the party squirm. In 1980 the first experiment with such polls led to heated campaigns on campuses. Officials intervened to block outspoken candidates from winning seats. Six years later, attempts to exclude independent candidates from local elections prompted student protests. The crackdown on the Tiananmen Square unrest in 1989 all but ended activists' efforts at the ballots until 2003, when a slightly more liberal atmosphere encouraged dozens from the newly emerging middle classes to run. But when elections were held three years later, the party stifled media coverage.

Now, despite a sweeping crackdown on dissent this year involving the arrest of dozens of activists, the party is finding it harder to impose silence. A surge in online social networking has enabled citizens to connect instantly with vast numbers of like-minded people. Intellectuals and journalists with high profiles online are among those who have declared their candidacies. Li Chengpeng, an author and social critic in Sichuan province, has more than 3m followers of his Sina Weibo account. In a message posted on June 15th Mr Li wrote that a policeman had said he would vote for him, with many fellow officers wanting to follow suit.

The emergence of these candidates has coincided with a spate of local disturbances in different parts of the country. They make the party, which is preparing to celebrate its 90th birthday on July 1st, all the more anxious. In Zengcheng, a town in Guangdong province that manufactures jeans, thousands of police appear to have quelled days of rioting which broke out on June 10th after an altercation between security guards and a migrant street vendor. This came after rioting in Lichuan in Hubei province over the death in police custody of a local legislator and anti-corruption campaigner. In late May a man

with grievances against the government in Fuzhou, Jiangxi province, blew up himself and two others, prompting an outpouring of sympathy on the internet. Xu Chunliu, a self-proclaimed candidate in Beijing, who has 12,000-plus Sina Weibo followers, says such incidents have encouraged some to venture into politics. Better, he says, to battle it out in parliament than on the streets.

On June 8th the government revealed its jitteriness about elections in an interview by the state-run news agency, Xinhua, with an unnamed official of the National People's Congress, the apex of the legislative hierarchy. The official said independent candidates had "no legal basis" and hinted that campaigning in non-approved settings would not be tolerated. But the official did not rule out the possibility that independents could run. A harder-hitting commentary appeared in *Global Times*, a Beijing newspaper. By soliciting votes through the internet, it said, independent candidates "could destroy the operating rules of Chinese society". It urged them to "return from microblogging to reality".

Mid-May elections for the people's congress in Xinyu, a city in Jiangxi province, underlined the difficulties independents can face. Liu Ping (pictured above), a retired worker with more than 31,000 online followers, tried to run but was disqualified, apparently because of her labour activism. Her home was later raided by police, who detained her for several days. Ms Liu's microblog postings about her experiences aroused sympathy among internet users and helped launch the recent wave of independent candidacies.

The party is not united, though. On June 13th *Study Times*, a newspaper published by the Communist Party's top academy for party officials, argued in defence of independent candidates. China, it said, had failed sufficiently to emphasise the right to get elected. The newspaper said the idea that "you can only be a representative if we let you be a representative" was a "serious violation of socialist democratic principles". The party, it appears, has some internal differences of its own to resolve.

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North Korea's economy

Exogenous zones

An opening for Chinese investment in a benighted country



Start again

NORTH KOREA aims to become a *Gangseong Daeguk*-a strong and prosperous nation-by 2012, the 100th anniversary of the reclusive state's founder, the late Kim Il Sung. With just half a year to go, it will be a stretch for the near-bankrupt dictatorship to overcome the misrule continuing under his son, Kim Jong Il. All the same, the recent announcement that two special economic zones will be developed with the co-operation of China might just signal the start of a big change for the stricken country.

Rajin-Sonbong (or Rason, for short) lies by the Sea of Japan in the country's north-east, near the border with Russia. Hwanggumpyong is a sandy island at the mouth of the Yalu river that divides North Korea from China. Both are to be developed with Chinese support and then run along broadly market-driven lines. The focus appears to be on logistics, raw materials and manufacturing. At the moment even the most basic infrastructure is lacking. A groundbreaking ceremony for Hwanggumpyong has just taken place, attended by China's commerce minister, Chen Deming, and the most powerful non-Kim in the North Korean regime, Jang Song Taek.

Hopes that North Korea was about to change have been raised before, only to be dashed. Rajin-Sonbong itself was originally declared a special zone in 1991, and had lavish backing from the United Nations Development Programme. Then mismanagement and poor infrastructure put paid to early hopes. A casino financed by Hong Kong investors was shut down when hordes of Chinese officials went to gamble away public funds. In 2002 North Korea chose a tycoon, Yang Bin, then China's second-richest man, to develop a special zone by the Yalu. It too came to naught, when Mr Yang was arrested in China for tax evasion. Special zones apart, traders and investors from China were badly burned by the regime's sudden and disastrous confiscation of the old currency in 2009.

China, the regime's last protector, has long been frustrated by North Korean intransigence, not least over economic reform. Mr Kim has often visited China and praised the development model there, only to do nothing when he got home. Liberalisation has never come at the expense of the regime's grip on power, however impoverished it renders ordinary folk.

Perhaps this time might be different. Last year's rehabilitation of a reform-minded former prime minister, Pak Pong Ju, hints at leanings toward economic change. International sanctions over its nuclear programmes have left North Korea more dependent than ever on China, with which it conducts four-fifths of its trade. With greater leverage, China might now be getting its way. Rason offers a port on the Sea of Japan, something denied China since it ceded Outer Manchuria to Russia in the mid-19th century.

Despite the two countries' professed fraternal love, Mr Kim will resent greater Chinese influence. But should Chinese-style capitalism gain greater traction in North Korea, the consequences are hard to predict. It might provide Mr Kim with the money for clinging to power. Or else it might expose the country's economic failings, bringing in an unbiddable tidal wave of change from outside.

Pakistan and America

My ally, my enemy

Pakistan arrests those who helped get Osama bin Laden


Arresting views

WHEN Islamabad's ambassador to Washington, Husain Haqqani, lectured army officers last month at Pakistan's National Defence University, he asked the assembled colonels whom they regarded as the greatest enemy. A third of them named America-with which Pakistan supposedly has a military alliance.

That alliance was already turbulent before a raid by American special forces killed Osama bin Laden on May 2nd. Now it has gone into a tailspin. It was an embarrassment for Pakistanis that bin Laden was living in northern Pakistan and that the Americans went in to kill him without telling them-and undetected. Now it emerges that Pakistani authorities have arrested several local informers who had watched bin Laden's compound for the CIA ahead of the raid. According to a Pakistani source, the arrests include a former army officer, a doctor who had been with the army medical corps. The army is enraged that the CIA has developed an independent spy network in the country.

The arrests come at a time when America badly wants Pakistani co-operation in killing or capturing the remainder of al-Qaeda in the country-including, presumably, Ayman al-Zawahiri, its new leader. The group is struggling to cope with the death of bin Laden and with the American seizure of huge amounts of information on its workings.

But Pakistan's powerful armed forces are wallowing in anti-Americanism. Their relations with various jihadist groups also remain a concern, even while other extremist groups carry out a campaign of terror inside the country.

Last week the CIA director, Leon Panetta, flew to Islamabad and confronted the army with evidence that intelligence America had recently passed on about two bomb-making factories in Pakistan's tribal areas, being used by insurgents active in Afghanistan, had led to a tip-off. The bomb-makers had vanished from the sites several days before the army showed up.

In turn, the armed forces have haughtily declared they will no longer take cash from the United States (on whom they have long depended for handouts). They have also ended an American military counter-insurgency training mission in the country. Yet behind the bitter words, from both sides, a good deal of co-operation continues. For instance, American "drone" aircraft still fly secretly from an airstrip deep in the desert of Baluchistan province, targeting suspected militants in the country's tribal areas.

Pakistan's military is feeling wounded. The bin Laden shock was followed by a daring terrorist raid on a naval base in Karachi, and by accusations that the armed forces' spy agency was behind the murder of a journalist last month. Domestic criticism unleashed at the army, the country's dominant institution, is unprecedented. It is usually exempt from scrutiny, mostly out of fear. The army says it has resolved to "put an end" to the disparagement.

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A bank scandal in Afghanistan

Black holes

The political fallout of the bust Kabul Bank



Kabul Bank: one big hole in the ground

AMID the wasteland that is "Business Bay", one of Dubai's most disastrous property developments, are two enormous holes in the ground. They mark what were to have been the foundations for a pair of 20-floor towers containing luxury flats. Here, $40m belonging to depositors with accounts at Kabul Bank was sunk. The stricken Afghan bank had for years been run as a giant Ponzi scheme for the benefit of powerful shareholders.

Last year Afghanistan's central bank spent $820m of its reserves bailing out Kabul Bank. The question now facing the government of President Hamid Karzai is how it will recover the money from these worthless holes in the ground, along with luxury Dubai villas bought at the top of the market, and much else. In total, close to $1 billion is missing, thanks to a binge of interest-free and mostly illegal insider lending to shareholders, including one of Mr Karzai's brothers.

The spiriting away of such sums is a huge blow in a land with an official GDP of just $12 billion a year. The United States, through the IMF, is taking a tough line, demanding that the foot-dragging government properly finance the bail-out and prosecute those responsible. The IMF's insistence has sharply slowed the flow of donor funds on which the Afghan government relies. If the IMF remains unsatisfied, the country will suffer a cash crisis within a month.

The Afghans protest that, after months of wrangling, they have done much of what was asked of them, including replacing the bank's management, stripping the shareholders of their rights, and hiving off all the dodgy loans. The finance minister, Omar Zakhilwal, has plans to raise taxes and pay off the bill over eight years.

Yet horrified members of parliament have already rejected a budget that called for $73m to be spent this year on just the first instalment. MPs argue that the bill should be paid for by seizing and selling the shareholders' assets.

That will not be easy. Massoud Ghazi, the bust bank's new head, says the shareholders are deliberately concealing what they took. Loans were obscured by fake documentation and by putting them in other people's names. Most foreign experts agree that retrieving even half of the lost money would be an achievement. Just $61m has been recovered so far.

A $10m audit just begun by Kroll, a sleuthing agency, and underwritten by the British government, should help. But a willingness to prosecute those who took the money matters even more. Under United Arab Emirates law, none of those luxury villas in Dubai can be seized until criminal prosecutions are seen to have begun.

Yet the bank's shareholders, whether guilty or innocent, look untouchable thanks to their political connections. They include the most senior among Afghanistan's vice-presidents, Mohammed Fahim, a former warlord. Not only did members of his family take out loans worth at least $78m. Mr Fahim is also a leading light of the country's Tajiks, the largest ethnic group after Mr Karzai's Pushtuns. Kabul Bank was a bastion of the northern, Tajik establishment. Mr Fahim is reported by Western diplomats to have vowed last year that he would "never let the Pushtuns take Kabul Bank."

Compounding the difficulties are suspicions that another northerner, Sherkhan Farnood, the bank's whisky-swilling, poker-playing former chairman, has a "black book" of dirt to dish on top politicians. At a time when many Tajik leaders are spooked by fears that the government might rush a peace deal with the Taliban insurgency, it is not surprising that Mr Karzai, in a private meeting last month, begged shareholders to return the cash voluntarily.

Mr Zakhilwal insists the case is with the attorney-general. But, after letting off one of Mr Karzai's top aides who was caught red-handed soliciting a bribe, he inspires little confidence. One proposal is for a special court of hand-picked judges instead. "We have done 95% of what they [the IMF] have asked for," Mr Zakhilwal protests. No sign yet that the Fund will relent on the remaining 5%.

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Food scandals in Taiwan

Plastic unfantastic

Tainted products also poison the president's chances of re-election

TAIWAN'S biggest-ever food scare began when government inspectors testing sports drinks and soft drinks last month detected dangerous levels of industrial plasticisers. These are normally used to make everything from shoes to hosepipes more flexible. Since then, the plasticisers have been found in a range of foods and drinks. The crisis has also gone firmly international as China, Hong Kong, South Korea and the Philippines have withdrawn Taiwanese products from supermarket shelves. Taiwanese commentators are wondering how the government can live the scandal down.

Some 900 products have been pulled from nearly 40,000 Taiwanese shops. Hospitals have been flooded with worried parents seeking check-ups for their children. Diets have swiftly changed. Out have gone processed drinks and even ice cream.

The problems have been traced to two upstream suppliers of food additives, Yu Shen Chemical and Pin Han Perfumery. Among other things, plasticisers were substituted for palm oil as clouding agents in drinks. One plasticiser, known as DEHP, is a possible carcinogen, and thought capable of wreaking havoc with children's reproductive organs. The inspectors discovered levels far in excess of the daily allowed intake. Insiders have told investigators that products may have been doctored for decades.

Any hopes that the scare might end quickly were dashed when contamination fears spread to pharmaceuticals. Local pharmaceutical companies have recalled a dozen licensed drugs, and on June 11th GlaxoSmithKline, a multinational drug giant, was ordered to recall two antibiotics when traces of plasticiser were found-though, company and government insist, at way below maximum recommended levels.

Taiwan's president, Ma Ying-jeou, describes government raids on shops and suppliers as Taiwan's biggest-ever effort in fighting food contamination. Executives from the offending companies have been arrested. Mr Ma himself, along with prime minister Wu Den-yih and other ministers, donned workmen's helmets and fireproof jackets and ceremonially burned contaminated goods in Changhua county. Mr Ma described their operations as "mopping up the battlefield". Government officials in eight other counties also staged incinerations. It is anyone's guess whether this propaganda show, worthy of China's Communists across the Taiwan Strait, instilled confidence.

Taiwan's once robust reputation as a reliable and safe exporter of food has been dented. Mr Ma's own reputation for competence has also been damaged by his government's slow and muddled response to the crisis. Mr Ma is seeking re-election early next year. At the least, argues Hsu Yung-ming at Taipei's Soochow University, the scandals may affect Mr Ma's choice of running mate. His favourite was assumed to have been Mr Wu. But with the prime minister now a possible lightning rod for dissatisfaction over the tainted products, Mr Ma may have to think again. Other potential candidates are hardly inspiring. But Mr Ma will be keen to distance himself from any more cabinet embarrassments.

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New Zealand's economy

Creaming along

The land of milk, and more milk

NEW ZEALAND'S biggest customer, supplier and investor is Australia, which is also the owner of its biggest banks. Unsurprisingly, its economy shares many of its bigger neighbour's bad habits: an unsustainable housing boom (from 2001-09 New Zealand's house prices more than doubled); heavy household debts (which, like Australia's, exceed 150% of disposable income); and a chronic current-account deficit, which, until recently, had left the country more in hock to foreigners than Greece is.



But New Zealand is also starting, belatedly, to emulate Australia's resource-driven strengths. In April it recorded its biggest trade surplus in history: NZ$1.1 billion ($890m), or about 7% of GDP at an annual rate. Strong overseas demand has pushed its terms of trade (the price it fetches for its exports, relative to the price it must pay for imports) to a 37-year high (see chart).

Looming large in this surplus are dairy products-butter, cheese and especially milk powder-which accounted for over a quarter of New Zealand's merchandise exports. With its swathes of rain-fed pastures, New Zealand now claims a third of world dairy exports. For comparison, that is twice Saudi Arabia's share of world oil exports.

Just as Australia has benefited from China's industrial appetite, so New Zealand sells vast quantities of milk powder to Chinese consumers wary of local brands damaged by food-safety scandals. Chinese tourists sometimes stock up on baby formula on their travels and sell the tins back home. Some supermarkets in New Zealand impose four-can limits on customers.

Other opportunists are home-grown. In March Kiaora New Zealand International began selling formula under the brand "Heitiki", a Maori word. Heitiki claimed to be a favourite local brand, even though it had never been sold in New Zealand. The Ministry of Agriculture and Forestry, which was not familiar with the company, was worried it might be an unregistered manufacturer, and possibly in breach of safety regulations. A government minister, for her part, was upset that the firm had used imagery the Maori regard as properly theirs. Kiaora, it turned out, had outsourced the formula-making to a properly registered and regulated factory. But it nonetheless apologised for its "insensitivity" to the Maori people. Somewhere between the factory and the supermarket shelf, it had tainted its baby formula with cultural politics.

Baby formula is one of the country's growth "stars", according to Gerry Brownlee, New Zealand's former minister for economic development. He commissioned a 2010 report which showed that the wholesale price of infant formula in Singapore was ten times greater than the value of its chief ingredient, skim-milk powder. New Zealand's food exports, the report believes, should move from the "walls" of supermarkets, where basics such as milk, meat, fruit and vegetables are stored, to the central aisles, which stock processed foods. Only then will New Zealand achieve its goal of increasing income per head by three-fifths in 15 years-a strategy also known as "catch up with Australia by 2025".

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Banyan

Nothing new under heaven

What philosophers thought when China was the world and how it can help China now



WHEN Henry Kissinger was paying his pioneering visits to China in the early 1970s, the country was in the grip of a campaign to criticise both Lin Biao, a recently dead and disgraced Communist leader, and Confucius. As was later remarked, it was as if the American press were vilifying Richard Nixon and Aristotle. But China's own past-the 5,000 years of history of which its leaders often like to remind foreign interlocutors-is a constant presence in its domestic politics and its view of the world.

Yet China's recent rise has taken place in a world organised along principles devised elsewhere, by foreign parvenus. Many Chinese chafe at the common Western notion that multiparty democracy is the form of government towards which

all other systems evolve. But some scholars also resent another European invention: the nation-state, the basis of modern diplomacy. For years they have struggled to develop a distinctively Chinese theory of international relations. This is almost a matter of national pride, even chauvinism: "As a rapidly rising major power, it is unacceptable that China does not have its own theory," wrote Qiu Yanping, a senior Communist Party man, in an article in 2009.

So attempts to apply precepts devised by ancient Chinese philosophers to the modern world are in vogue. One popular revival is the notion of *tianxia*, or "all under heaven". This dates back to the golden age of classical Chinese philosophy-of Confucius, Mencius, Laozi and the rest-in the "warring states" period before China's unification in 221BC under the first Qin emperor. *Tianxia* is widely understood as a unified world dominated by one country (call it the "middle kingdom", perhaps), to which neighbours and those beyond look for guidance and pay tribute.

According to Zhao Tingyang, a Beijing-based philosopher known for his book of a few years ago on *tianxia*, the concept is based on the vision of an ancient sage-king, the Duke of Zhou. The duke realised that for Zhou, a small state, to exercise sway over other feuding states, he could not rely on force of arms. It had instead to draw on its own moral and political example. As Mr Zhao updates this, *tianxia* is a Utopian vision of universal harmony, unattainable, he concedes, for 200-300 years, where everybody opts into a system of global government.

Mr Zhao, a courteous, gentle and rather otherworldly scholar, is no tub-thumping Chinese nationalist. There is now no need, he says, as there was in the Duke of Zhou's day, for one predominant state. He is not advocating a world order led by China, but a system of equality. Nor is there to be compulsion. *Tianxia* is a voluntary choice. It is also, self-evidently, a distant dream rather than a manifesto for practical politics.

It has, however, made an impression. Some even see its influence in the ideal adopted by China's Communist Party leader, Hu Jintao, whom Mr Zhao has never met, of a "harmonious society". In popular culture, *tianxia* loomed large in "Hero", an epic martial-arts film by Zhang Yimou, one of China's best-known directors, set at the time of the Qin unification and released in 2002. Some also heard *tianxia* echoes in the slogan for the 2008 Beijing Olympics: "One world, one dream".

Though Mr Zhao was not proposing an indigenous blueprint for a China-led new world order to supplant the one led by America, the misconception that he was explains some of his appeal within China. One of the most popular books on sale in China at the moment is on "The rise of a 'civilisational state'", by Zhang Weiwei. Mr Zhang argues that China is unique as "the world's only amalgam of an ancient civilisation and a huge modern state", and is "increasingly returning to its own roots for inspiration, and producing its own norms and standards."

In another new book (this one in English), "Ancient Chinese Thought, Modern Chinese Power", Yan Xuetong, a scholar at Tsinghua University in Beijing, concludes that "it is not possible to create a Chinese school of international-relations theory." But he does think pre-Qin thought can "develop and enrich international-relations theory". A British commentator once dubbed Mr Yan a "neo-comm", analogous to an American neocon-ie, an assertive Chinese nationalist intent on facing down American hegemony. But Daniel Bell, also of Tsinghua, one of the book's editors, argues this misrepresents Mr Yan's views by overlooking the emphasis he, like the pre-Qin philosophers, puts on the importance of morality in politics, and in establishing China as a "superpower modelled on humane authority".

Beyond the failed state

For scholars like Mr Yan and Mr Zhao, the pre-Qin thinkers offer fresh approaches to solving the problems of what Mr Zhao calls a "failed world", with its endless wars. One is that the nation-state system of notional equality between countries fails to recognise that some are more equal than others. As China's foreign minister bluntly pointed out last year at a meeting with its South-East Asian neighbours: "China is a big country and other countries are small countries and that's just a fact." A second problem is that national governments-especially, some in China would argue, in democracies-often ignore the interests of those without a vote, such as unborn generations and foreigners.

Abroad these theorists' ideas tend to be greeted with suspicion as excuses for China's exceptionalism and its rejection of international rules it does not like. But at home they face equally daunting obstacles. The Communist Party, heavily pragmatic, is unlikely to adopt the moral precepts at the heart of classical Chinese philosophy. And just as fundamentally, for all that the idea of the nation-state, inviolable in its sovereignty, is a Western idea, China has become among its staunchest supporters-and is the fiercest critic of any perceived "interference". Moreover, it is hard to maintain that

China's astonishing success in recent years has been won in spite of the current international system. Indeed, China has arguably been one of its biggest beneficiaries.

Syria

From bad to worse

As the turmoil spreads, the repression intensifies-but so far in vain



THE big question, as the Syrian uprising enters its fourth month, is whether the protesters, who have been slaughtered in their hundreds by President Bashar Assad's security forces, will themselves remain peaceful. The increasing violence of the repression, especially in the north-western town of Jisr al-Shughour and the province of Idleb surrounding it, is raising the stakes. An all-out assault on the city has prompted more than 8,500 people to flee to Turkey, some 20km (12 miles) away.

Troops are sweeping through towns across the province in pursuit of what they claim are "armed gangs". The town of Marat al-Numan, on the main road between Aleppo, the country's second city, and Damascus, the capital, is readying itself for an attack. Tanks have moved into the area around Deir ez-Zor, a city of tribes and economic grievances in the east. In the restive port city of Latakia and in Homs, Syria's third-biggest city, gunfire has been ringing out. Hama is still bubbling. The turmoil has been spreading dramatically. Demonstrations took place in no fewer than 138 locations on Friday June 10th, according to the opposition.

In any event, a debate is raging among the protesters over what to do next. Gun prices in Homs (see article) have risen sharply as residents buy weapons to protect themselves from security-service thugs ransacking houses. "As the killing goes on, maybe weapons will be taken up," says a former member of parliament who backs the protests. "But many townspeople have no idea how to use them."

In a number of instances protesters, who at first were overwhelmingly peaceful, have begun to fight back. In the smuggling town of Tel Kalakh, near the border with Lebanon, they have used rocket-propelled grenades and guns. Jisr al-

Shughour, also close to the border, is an entrepot town. But the vast majority of protesters, keen to keep the moral high ground, still shun guns. Wanting foreign and local opinion on their side, they are wary of lending credence to the official line that the violence has been caused by "armed gangs". Instead, the protesters have asked the security forces to stay away and have held a series of strikes. In Douma, on the edge of Damascus, protesters have also threatened civil disobedience.



Another source of armed conflict is the splintering, rather than wholesale defection, of the army and the regime's arming of loyalists. Some of the deaths in Jisr al-Shughour on June 4th were caused by loyalist soldiers firing at defectors, though the official figure of 120 dead (all at the hands of "armed gangs" in an ambush, say the official media) was probably inflated. But Sunni conscripts, who form the bulk of the regular army, are increasingly likely to desert, and quite a few have clearly done so. Some have fled from Jisr al-Shughour into the foothills near the Turkish border. Others elsewhere are said to have been shot for refusing to fire upon the protesters.

But the security service is more reliably loyal. The regime's political and military core is drawn from a tight circle of loyalists. Mr Assad has not been seen in public since April 16th (apart from a meeting with actors shown on television on May 15th), so rumours have spread that he is not in control. He has refused to take calls from the UN secretary-general, Ban Ki-moon.

But this is a family affair. The key figures are Mr Assad's younger brother, Maher, who commands an elite force known for its brutality and entrusted with defending Damascus; Rami Makhlouf, a cousin, said to be Syria's richest man; the president's brother-in-law, Asef Shawkat, the army's deputy commander; and a clutch of intelligence chiefs. They all stick together, each depending on the others.

The security forces are bolstered by gangs including the *shabiha*, a thuggish militia drawn from the Assads' Alawite sect, which makes up 10% of Syria's population as against the 75% who are Sunni. This, along with the regime's arming of Alawite villages and reports that Sunni prisoners are being mockingly told to declare Bashar Assad their deity, has stirred sectarian feelings; some 10,000 Syrians suspected of dissidence are now said to be behind bars. In other words, the scene may be set for a still wider and bloodier conflict.

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Syria's restive third city

Still bubbling

In Syria's third-biggest city people fear for the future



IT IS a city of mixed moods. As the protests persist, people are fearful yet defiant. Many are suspicious of their fellow citizens but cling tightly together for mutual support. On June 8th some still denied the extent of the uprising, even as tanks moved into the city en masse for a second time.

Against a backdrop of sporadic gunfire, people are trying to reimpose normality on lives that were shaken after the security forces bloodily broke up a sit-in on April 18th. The soldiers have since killed scores-perhaps hundreds-of people in this city of 1.5m. Children have been sitting exams and playing football, using tanks as goalposts, while the better-off sip coffee in glass-fronted cafes in smart Hamra Street. Some districts are still hemmed in by tanks, with soldiers crouching behind sandbags. Workers ordered by officials to use sprays to remove graffiti have failed to obliterate slogans calling for Bashar Assad to go.

At midnight on Thursday June 9th, protesters shout out the *takbir*-Allahu akbar! God is Great!-from the relative safety of their balconies. Gunshots ring out. The voices answer back in a crescendo of protest. The gunfire intensifies. Huddled on the ground for fear of stray bullets, a woman sits with her head in her hands, repeating softly, "How could they do this?" A man curses the regime. "The bastards-using tanks against their own people". A youth vents his rage, vowing to rally his friends onto the street.

The next day the gunfire starts at around 10am. At noon tanks and anti-aircraft guns start shooting, apparently into the air but casting fear into many a heart. A man can be seen packing his family into a car before speeding out of town. Others batten down their shutters. A few are spurred on to further acts of courage. Small demonstrations, which rattle through the streets every night, break out in mosques, until thugs in the pay of the security forces disperse them.

You cannot tell how many people in Homs are fully on the protesters' side. Many are too frightened to give an opinion. Officials of the ruling Baath party organise noisy pro-Assad rallies to match those of the protesters. Some Christians, who make up a large minority in Homs, have joined the demonstrators, while others resent the turmoil they have caused. Most of the city's Alawites, the minority sect to which Mr Assad belongs, have remained loyal to the regime.

But the protesters seem to be gaining ground. At first a lot of people backed them because they stood against poverty and corruption. But it was the bloody brutality of the official reaction that has driven people into the opposition camp. "I saw a teenage boy shot through the eye," says a university student who carried the boy to the mosque and prayed over him as he died.

Anti-regime committees have sprung up all over the city, with a medley of people-plumbers, students, doctors, the unemployed-working together. But almost everyone is fearful of what may come next. Some people are buying guns to protect themselves and their families. As they become more desperate, they could yet turn them on the regime.

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Arab kings

How to keep your crown

The kings of Morocco and Jordan have made some shrewd pre-emptive moves



Abdullah's cheeky subjects

THERE are two kinds of Arab sovereign: those who rule from behind a veil of constitutional niceties and those who dispense with the veils. Both are meeting the challenges of the Arab spring better than the region's fallen or beleaguered republican presidents-for-life. Yet the pressure of rising demands from restless subjects is proving harder to resist for those kings who have been nice enough to pretend to democratic leanings.

The rulers of Morocco and Jordan, kingdoms with no oil wealth and close ties to the West, have long seen fit to defend their dynasties by leaving room for mild dissent, letting loyalist parties play politics and ever promising that this game will some day be real. But in both countries repeated feints at reform since their relatively young kings took power a decade ago have not much changed the underlying rules. Muhammad VI of Morocco and Abdullah II of Jordan still hire and fire prime ministers, command national armies and tolerate little criticism of themselves, much in the way of their grandfathers. Morocco's constitution holds the person of the king, also known as Commander of the Faithful, to be sacred and inviolate.

Such relics of divine kingship may soon go the way of Louis XVI's head. Protest movements, not unlike those of Egypt and Tunisia, have surfaced in both countries. Dollops of state largesse, including tax breaks, bigger food subsidies and amnesties for convicts, have so far blunted their impact. But the two kings and their advisers have seen that the demise of nearby presidents was not only swift but cheered by their own subjects and foreign allies alike. So they have separately concluded it may be best to pre-empt their peoples' demands rather than wait for them to grow angry and then fall into the now-classic losing spiral of offering too little, too late.

Morocco's king seems prepared to go furthest fastest. In March he charged a commission with drawing up a new constitution. The text, to be put before a referendum next month, remains under wraps, but carefully promoted leaks suggest it will include some big changes. The king may no longer appoint prime and other ministers, provincial governors and a host of lesser officials. Many of those rights would revert to an elected prime minister, who in turn would answer to a parliament less encumbered by the current nannying rules of procedure. In short, Morocco's 300-year-old Alawite dynasty may start to look a bit more like the popular Bourbons, still reigning across the straits in Spain.

King Abdullah's reforms look more modest by comparison. In February he sacked an unpopular prime minister and, rather than crush street protests, magnanimously relaxed laws restricting public gatherings. In March he created a 52-person body for national dialogue, and told it to draft new electoral laws. Just when elections might happen, he is not saying. But he has said he wants the new law to promote stronger party affiliation, and has hinted heavily that future prime ministers would have to represent parliamentary majorities, not just the king's choice.

Such moves do not go far enough to meet the demands of true democrats in either kingdom. Moroccan protesters have taken to the streets, insisting that changes be more profound. A website that lets visitors vote on whether to keep or abolish parts of the old constitution has attracted 100,000 responses; their wishes reveal a bigger appetite for reform than seems to be on offer. A narrow majority wants the king to retain the title Commander of the Faithful, and to lead the army. Fat majorities say he should lose most political powers and his person no longer be deemed "sacred".

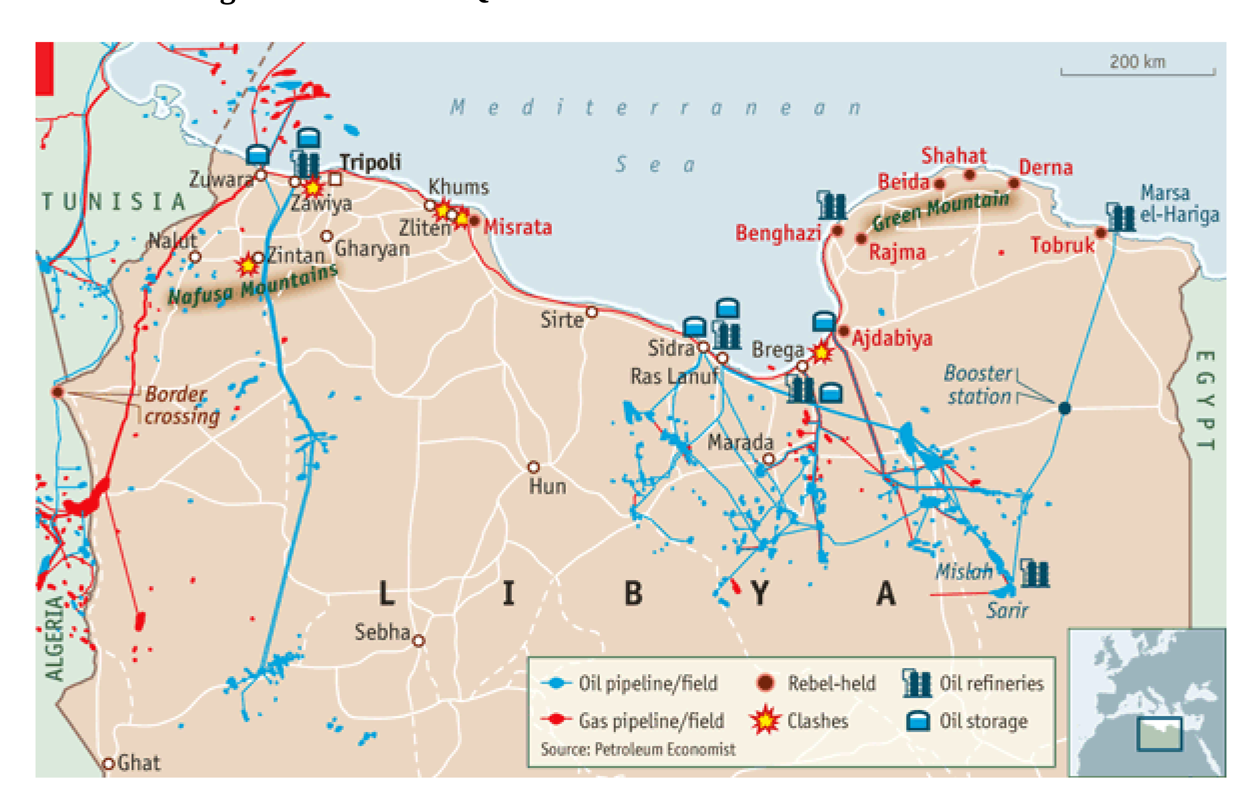
Morocco's referendum is likely to pass, reflecting lingering deference to the ruler, and Jordan's king will probably keep his crown for some time. But their people have shown they are tired of tricks designed to retain the status quo. Other Arab kings will watch-and perhaps learn.

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Libya's oil

The colonel is running on empty

The tide continues to flow against Muammar Qaddafi



TO RUN short of fuel, as Field-Marshal Rommel discovered in 1942, can be fatal to a military campaign in north Africa. Thanks to NATO's aerial bombardment, Muammar Qaddafi has few tanks left to seize up but his regime is running on empty. His military forces, now deploying civilian vehicles on the front line in the hope of confusing NATO's pilots, have priority in using the gasoline and diesel still available to the colonel. But it may soon run out.

A litre of fuel in the capital now sells for more than $8, about 50 times the price in Benghazi, the rebel stronghold in the east. Some lines of cars at Tripoli's petrol stations now stretch for more than a mile, with drivers taking turns to keep watch over cars left in queues overnight. Thieves scour the capital for vehicles that still have fuel in their tanks.

Limited supplies exist. A trickle of oil from fields in the regime-held south-west feeds the refinery at Zawiya, on the coast near Tripoli. Aerial surveillance shows heat coming from the plant but it is probably operating at no more than 30% of its capacity of 120,000 barrels a day (b/d). On June 12th rebels tried to capture the town but were repulsed by artillery. If Colonel Qaddafi were to lose Zawiya and its refinery, the game would probably be up.

The pipeline to Zawiya passes through rebel-held land near the Nafusa Mountains: pouring cement into a valve would shut it down. But Western governments have persuaded the rebels not to touch either that pipe or a nearby natural-gas one that helps keep Tripoli's lights on. Other sources of fuel are dwindling. Rebels say that Tunisians have helped them shut down most of the traffic of fuel-laden trucks entering Libya in the west, though some may still be getting in from Algeria.

Brega, still heavily defended by Colonel Qaddafi's forces, is almost as crucial as Zawiya. If it fell, the rebels would try to reopen it as an export hub for gas as well as oil-and Sidra and Ras Lanuf would probably fall too.

NATO is also stopping seaborne fuel from reaching the regime. On May 19th it prevented a tanker, the *Jupiter*, from delivering its load. Worried by this precedent, the Indian crew of a bigger vessel, the *Cartagena*, has since refused to let its 37,500-tonne cargo of fuel be delivered to Tripoli. On June 13th one of the colonel's sons, Hannibal, who controls the state-owned General National Transport Maritime Company (GNMTC), sent a tugboat full of Libyan sailors to take control of the *Cartagena* and bring it home. The plan failed.

So have efforts to find a buyer for a cargo of 0.6m-0.8m barrels of crude oil held in government storage tanks. That would fetch the regime about $84m, excluding a war premium. A trader was apparently willing to take the oil but has yet to appear with a tanker. Selling fuel to the regime or buying oil from it have both become harder. NATO justified its interdiction of the *Jupiter* on the ground that its fuel would have been used by the army to attack civilians.

On June 7th the European Union, prodded by Britain, imposed sanctions on six ports still held by Colonel Qaddafi. Until then, France and Italy had been loth to hurt the GNMTC. A French shipyard signed a contract in 2010 to build a ship for the firm, and a refinery in Sardinia had provided the regime with fuel.

In the rebel-held east, fuel flows more freely but there are rumblings of discontent. Qatar has overseen shipments to Tobruk. But it has been less eager to pay Vitol, a Swiss-based trader it hired to do the job. The Qataris are in turn annoyed that Kuwait is yet to keep its promise of generous help: the pair recently offered $260m between them. The situation may improve now that the United Arab Emirates has recognised the rebels' National Transitional Council as Libya's government.

If the rebels could restart production of their own oil and resume exports from Tobruk, their edge over Colonel Qaddafi's forces would sharpen. But it is proving tricky and dangerous to restart the Mislah and Sarir oilfields, damaged by the colonel's forces in April, and repair a booster station along the pipeline that connects the fields to the port of Marsa el-Hariga, next to Tobruk. The rebels say they have found a way to bypass the defunct booster station and get 250,000 b/d flowing to Tobruk. But that would make the oilfields and pipeline a target for the colonel. On June 12th his forces again managed to reach those oilfields, impeding efforts to resume production.

Oil apart, NATO and the rebels are tightening the noose. "One more heave," says a British minister, noting that a "pincer movement" is hemming Colonel Qaddafi in from the Nafusa Mountains to the south of Tripoli and from Misrata, whence the rebels are poised to advance, to the east. Uprisings are said to be in the offing in towns such as Zawiya and Zliten, still closer to the capital.

The hope among Western governments is that the rebels will not capture Tripoli after a headlong advance from the east, with the attendant risks of retribution being inflicted on Qaddafi loyalists en route. Rather, the preference is for the regime to implode from within and for the people of Tripoli to rise up to remove the colonel-an eventuality widely reckoned, in Western government circles, to be getting close.

Egypt's new coalition

Is it for real?

Two very different parties say they will co-operate to build a democracy



Al-Banna takes a dim view of the coalition

ON THE one hand, behold a grand patrician party that once, when Egypt was a monarchy, serially produced prime ministers but, like Cairo's Belle Epoque buildings, has aged badly. On the other, witness a newly forged party with its roots in one of the most venerable of Islamist movements. On June 12th the couple announced that they would co-ordinate their efforts, along with an array of friendly junior parties, in a general election scheduled for September.

The proposed coalition, to be headed by the Wafd Party and the Muslim Brotherhood's Freedom and Justice Party, represents something both old and new in Egypt's turbulent new politics. The pair have joined forces before. In 1984 they ran on a single list in a general election, resulting in one of the biggest opposition blocks during Hosni Mubarak's lengthy presidency. A few years later Mr Mubarak decided to end proportional representation and enacted a single-district system. The Wafd and the Brothers then drifted apart, the former shrinking into irrelevance as a loyal opposition party that backed the regime's hostility to political Islam, whereas the Brothers grew into Egypt's most potent opposition, despite repeated crackdowns.

Hassan al-Banna, the schoolteacher and scouting enthusiast who founded the Brotherhood in 1928, famously opposed political parties. His successors now seem set on forming at least three: as well as Freedom and Justice, dissident Brothers have announced several less conservative versions, including al-Wasat (The Middle) and al-Nahda (Renaissance). Other Islamists, including the ultra-conservative Salafists and the Gamaa Islamiya, which recently admitted to having tried to

kill Mr Mubarak 12 times in the 1980s and 1990s, have their own plans for parties. Freedom and Justice will thus be just the largest of a divided Islamist movement, but can probably count on the support of these others against secular rivals.

So why seek a coalition with the Wafd, whose founding in 1919 as a nationalist party was largely meant to create secular Muslim-Christian unity in the face of British imperialism? The answer may be partly because the Brothers sense that the debate over Egypt's transition back to civilian rule has turned increasingly bitter in recent weeks and they want to draw the poison.

Indeed, everything is still being argued over: when to hold elections, whether to stick to a constituency-based electoral system or adopt party lists, whether a new constitution should be drafted first, and if so what place religion should have in it. Some liberal and leftist secularists are beginning to form their own coalitions specifically to counter the Brotherhood.

Egypt's generals and the Muslim Brothers say that a set of constitutional amendments, put to a referendum in March and endorsed by 77% of voters, give Egyptians a popular plan and timetable. Sceptics say the referendum was flawed, as it dealt with only a few articles, not the whole transition. Egyptians of all persuasions have been worried by a growing sense of division. Many fear that the Brothers have struck a tacit deal with the army, whose supreme council is still running the country. The Brothers' friendly overtures to the Wafd may be prompted by Egyptians' widespread desire for a consensus on how to build a new democratic agenda. But few are confident that two parties with such different roots will really be able to run the show happily together.

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Yemen and al-Qaeda

The jihadist threat

In the chaotic wake of a president's flight, extreme Islamists are boosted



IN THE sweltering summer heat, refugees are streaming out of Yemen's dusty, fly-blown southern town of Zinjibar. Thousands have struggled, often on foot, to reach Aden, 50km (31 miles) to the south-west, fleeing from a three-week war between the Yemeni army and assorted jihadists. Civilians have been killed in raids by government aircraft, bodies litter the streets, and the town, say the refugees, has run out of food and water. But they cannot say for sure who is fighting whom-or why.

Zinjibar is the latest city to be overtaken by violence, as chaos spreads after more than four months of protests that began in the capital, Sana'a. Earlier this month President Ali Abdullah Saleh flew to exile in Saudi Arabia after he was wounded in an attack on his compound. The government, now answerable to Mr Saleh's vice-president, says Zinjibar has fallen to al-Qaeda in the Arabian Peninsula (AQAP), a shadowy clutch of a few hundred militants who look for inspiration if not for orders to the organisation founded by the late Osama bin Laden. The Yemeni branch is better known in the West for one of its leaders, Anwar al-Awlaki, an American-Yemeni cleric involved in an abortive attempt to blow up an aircraft over Detroit in 2009.

AQAP has training camps in Yemen and calls in Arabic and English for attacks on American and Saudi targets and on the Yemeni government. American security people are still working secretly with their Yemeni counterparts to gather intelligence, using drones to pinpoint attacks on the guerrillas. In light of the recent surge in violence, American co-operation with Yemen's forces has increased. American weapons are said to be targeting leading jihadists with armed drones and fighter jets.

In his struggle to stay in power, Mr Saleh often argued that AQAP would thrive in a Yemen bereft of his leadership, especially when seeking money and weapons from abroad. But he often exaggerated its power. He recently withdrew most government forces from Zinjibar, ostensibly to bring extra security to the increasingly violent cities elsewhere. But opposition members and tribal leaders say Mr Saleh deliberately gave the armed groups a chance to take over the town and that in the past he has armed militant groups, encouraging them to attack, so that he can blame AQAP and highlight its activities.

Militant Islamists in Yemen are by no means limited to AQAP, though it is the most ideologically extreme of the Islamist groups. But AQAP is entrenched, has widened its reach and has grown in strength under Mr Saleh's rule. In the 1980s many Yemenis joined the mujahideen in Afghanistan, returning as well-trained heroes; many of them then fought for Mr Saleh in the civil war of 1994, which ended with the north imposing unity on the south. Since the 1990s radical Islam has been boosted by schools and universities funded by Saudi Arabian and Kuwaiti religious groups promoting a fierce brand of Wahhabist Islam.

This trend was sharpened by a crackdown on militants in Saudi Arabia, which caused hundreds of militants to flee to Yemen, where they found safe havens in rugged and tenuously governed areas in the centre, east and south, particularly in the provinces of Shabwa and Abyan, where poor young zealots make eager recruits. As some people in those parts have become more pious, government officials and soldiers have been increasingly despised as corrupt and violent.

North-west of Zinjibar, in Abyan province, the town of Jaar has been dominated by extremists for months. Some people there say they are happier than when they were under government control, despite crippled public services. The jihadists say they are grappling with the sewage system and trying to provide water. On June 15th a similar jihadist group captured parts of Houta, in Lahej province.

Zinjibar is still being fiercely fought over. The militants still hold the main bit of the city. It may find itself run by a mixture of jihadists, including both AQAP and criminal gangs; exclusive AQAP rule seems unlikely at present. The government has sent reinforcements but so far they have failed to retake the town.

As the economy falters and unrest threatens to descend into tribal mayhem, many Yemenis fear that angry and hungry people may join groups involved in hijacking, bank robberies and arms- and drug-smuggling, as well as jihadist outfits seeking to bring down the government and impose *sharia* law. American aerial attacks may kill some leading jihadists, but they always risk killing civilians too, bolstering the jihadist cause. The rise of militant Islam in Yemen is not precisely the same as the rise of al-Qaeda-but its result may be just as worrying.

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Somalia's civil war

One more down

Another al-Qaeda leader is no more



Fazul fizzles out

IT WAS probably the shifting front line in Mogadishu, Somalia's capital, that confused Fazul Abdullah Muhammad close to midnight on June 7th. The ruined streets on the city's outskirts were unlit. The head of al-Qaeda in the Horn of Africa, one of America's most wanted men, turned his Toyota Hilux right when he should have gone left. He ended up at a checkpoint manned by Somalia's transitional federal government (TFG), not the boys of the Shabab militia for whom he was a hero. He pulled a pistol and was shot dead, together with an accomplice.

He was quickly buried. It was not until a lot of cash and a laptop were found in the car that his identity was suspected. His body was exhumed and a DNA sample sent to an FBI laboratory in Nairobi, capital of neighbouring Kenya, to be matched against DNA samples the bureau had obtained from Mr Muhammad's children in 2007. They matched.

The 37-year-old, originally from the Comoro islands, had been on the run since organising the bombings of the American embassies in Kenya and Tanzania in 1998. Those attacks killed 224 and wounded 5,000, most of them Africans. Mr Muhammad's features let him pass as an Arab as well as an African. He travelled to Somalia from Tanzania in March on a South African passport under the alias Daniel Robinson. It is unlikely that he ever traded in blood diamonds, as some claimed, but he was probably involved in building closer ties between al-Qaeda cells in Africa, Yemen and Saudi Arabia. He may have co-ordinated two suicide-bomb attacks last year in Uganda's capital, Kampala, killing 74 people at a restaurant and in a club as they watched the football World Cup final.

Mr Muhammad was the last survivor among the al-Qaeda people responsible for the embassy bombings and for subsequent al-Qaeda attacks in Mombasa in 2002. In 2009 Saleh Ali Nabhan, a Kenyan, was killed in Somalia in an American helicopter attack. This latest death, so soon after Osama bin Laden's, is another blow to the Islamists who control south Somalia. Shabab fighters have lost ground in Mogadishu to African Union and TFG forces. They may be forced out of their redoubt in the city's Bakara market. Depriving them of its revenue could tip the economic balance in favour of the TFG, which already controls the port and the airport.

But the fighting is still fierce. The Ugandan army, which has 5,200 troops in Mogadishu, together with 4,400 Burundians, has lost several soldiers this month, including an inspirational officer. And the TFG's interior minister was recently killed by a Shabab suicide-bomber; the port has also been attacked.

Whether the Islamists will collapse or rally now depends largely on the performance of the TFG. A deal signed on June 9th between Somalia's president, Sharif Ahmed, and parliament's speaker, Hassan Aden, was meant to put off elections

until 2012 and give the TFG time to extend its control beyond Mogadishu. But the agreement also called for the removal of the popular prime minister, Abdullahi Muhammad, which sparked street protests-and he has vowed to carry on.

The squabbling deepens the division between those, such as Abdullahi Muhammad, who want an accountable government drawn from across Somalia, and others, perhaps including Mr Aden, a cattle-trader, who seek to advance clan and commercial interests. Unless Abdullahi Muhammad's vision prevails, the extremists who will surely take up the al-Qaeda banner will be hard to beat.

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Turkey's election

AK all over again

It was an impressive victory for Recep Tayyip Erdogan's ruling Justice and Development (AK) party. What will he do with it?



THERE was a decided feeling of deja vu when Turkey's prime minister gave a victory speech on the balcony of his Justice and Development (AK) party's Ankara headquarters after the June 12th election. When Recep Tayyip Erdogan was returned to single-party rule with a 47% voting share in 2007, he made identical-sounding pledges: to embrace those who did not vote for him, to mollify the opposition, to write a new constitution, not to interfere in secular Turks' lifestyles, and to make peace with the Kurds. This time voters gave Mr Erdogan 50%, making him the first Turkish leader to win three elections in a row-and to increase his vote share each time. Turnout was high (87%) and the polls were unmarred by violence or fraud.

Will Mr Erdogan honour his promises? The AK government's nine-year record of strong growth, improved social services and unprecedented stability pushed aside worries about the economy overheating. It was also enough to overcome growing concerns over Mr Erdogan's authoritarian manner. These have been serious enough to lose him the support of many liberals, who had previously backed him both in his pursuit of European Union membership and in his struggle with a politically overweening army.



In his victory speech Mr Erdogan sought to ease their concerns. "Nobody should have any doubt: whether you vote for us or not, all of your lifestyles and beliefs are a matter of honour for us," he said. Yet the voting map confirms the polarised picture seen after last September's constitutional referendum: huge AK majorities across Anatolia, but continuing support for the secular opposition in the west, especially in Izmir and west of Istanbul.

Indeed, AK's success largely reflects the rise of conservative Sunni Muslims from Anatolia, who have supplanted the army-backed elite. Their influence is increasingly felt in the economy as well as in the media. The government is stacked with AK bureaucrats, and there are more and more AK-chosen judges. The army has been defanged: scores of generals are in jail awaiting trial in the so-called Ergenekon case against alleged coup plotters. Mr Erdogan's campaign talk of leading the country until 2023, the centenary of Ataturk's republic, is no longer far-fetched. His critics gloomily compare AK to Japan's Liberal Democratic Party, which ruled for half a century.

Despite this, the election result will have disappointed Mr Erdogan. AK won 5m more votes than in 2007, but slightly fewer seats (326) in the 550-seat grand national assembly. That is far less than the two-thirds majority it was seeking, which would have allowed it to rewrite the constitution unilaterally, and even below the three-fifths majority that would have let it make changes subject to a referendum. Mr Erdogan will now have to win opposition support for his new constitution.

He has made no secret of his wish to scrap the current document, which was written by the generals after a coup in 1980. He dreams of a French-style presidential system, boosting the powers of an office he still hopes to occupy himself. Under AK's internal rules Mr Erdogan cannot run for a fourth term as prime minister, so he has nowhere to go save upstairs.

Aiming to win the supermajority that would have eased this task, Mr Erdogan embraced a strident anti-Kurdish tone on the campaign trail. This was a clear bid to keep the Nationalist Action Party (MHP) below the 10% threshold needed to win seats. MHP officials claimed that AK was behind a slew of sex videos showing their colleagues in compromising circumstances that surfaced on the internet shortly before the election and led to the resignations of ten MHP candidates. Yet in the event the MHP scraped through with 13 %.


Explore our

The scale of AK's victory suggests it would win any referendum on a new constitution. But the opposition is unlikely to agree to changes that enhance the president's powers. The main opposition, the secular Republican People's Party (CHP),

won 26% of the vote, up from 21% in 2007, its best result in almost three decades. But it remains unclear if this will be enough to cement the leadership of Kemal Kilicdaroglu, who took over only last year.

Mr Kilicdaroglu has tried to reshape the CHP, which had long been a slavish mouthpiece for the army. He has even called for a decentralising of power, granting the Kurds greater autonomy and keeping the generals under strict civilian control. He would like to scrap the special security courts where thousands of (mainly Kurdish) dissidents are prosecuted for such crimes as singing militant songs. Appalled remnants of the CHP old guard are plotting to overthrow Mr Kilicdaroglu. His predecessor, Deniz Baykal, who was forced out after a sex scandal, is leading the charge-no matter that in two decades as leader he failed to win a single election. Mr Kilicdaroglu has proved himself a tough and canny operator, but he may be distracted by internal dissent for months.

Another challenge for Mr Erdogan will come from the pro-Kurdish Peace and Democracy party (BDP), which now has a record 36 deputies (including a Christian) who campaigned as independents. This puts the party in a strong position to pursue its pet issues, from the prison conditions of Abdullah Ocalan, the leader of the Kurdistan Workers' Party (PKK) rebels, to allowing education in Kurdish, to ending army operations against the PKK. It will be hard for Mr Erdogan to meet their demands without compromising his popularity. Worse, the PKK threatens to end its unilateral ceasefire and take its battle to cities beyond the south-east if the government ignores its calls.

A magnanimous and conciliatory prime minister in his final term could do more. He has already reshaped some ministries, including scrapping the ministry for women (to the fury of feminists). Brussels is pleased by the establishment of a new ministry for European affairs, but more may be needed to reinvigorate Turkey's largely stalled EU membership talks. Hopes that Mr Erdogan might make a unilateral gesture on Cyprus by opening Turkish ports to Cypriot vessels so as to win the opening of blocked chapters in the talks seem likely to be dashed. Mr Erdogan could also reinstate and build on the "Kurdish opening" that he launched two years ago. Yet Cengiz Aktar, an academic commentator in Istanbul, notes that Turkish governments have been good at conflict, but not so good at conflict resolution.

There is anyway a more immediate source of trouble on the border. More than 5,000 Syrians have fled to Turkey in recent days, as Bashar Assad intensifies his bloody battle against protesters (see article). Mr Erdogan has been urging Mr Assad to meet their demands. The Turks have met the Syrian opposition to increase pressure on the regime. Yet the bloodshed continues-and Mr Erdogan's patience is wearing thin. As one official puts it, "all options are on the table." Mr Erdogan will have much on his plate in the coming months.

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The Kurds and basketball

Bouncing back

Some young Kurds find success on a basketball court



The ball is in his court

IN THE alleys of Diyarbakir, Kurdish urchins hurl stones at armoured police vehicles and flash victory signs. The police respond with water cannons. Such sights are common in the unofficial Kurdish capital. The latest outbreak began a month ago, after the Turkish army killed 12 members of the Kurdistan Workers' Party (PKK) on the Iraq border. The PKK, which had declared a ceasefire until the election on June 12th, now threatens to resume fighting unless Recep Tayyip Erdogan, the prime minister, offers Kurds more rights in a new constitution. Some Turks think it would be better to let the Kurds go. "Let them have their own country and get out of ours," growls Remzi Kok, a carpenter in Istanbul.

Amid such tensions, miracles unfold on a basketball court in Baglar, Diyarbakir's toughest neighbourhood. Even America's National Basketball Association has noticed. Formed six years ago, Baglar's junior team, comprising 133 boys and 122 girls, has shot to fame. Six girls and two boys have got into the national squad. One girl, 13-year-old Zilan Gulsum, is Turkey's top player in her age group. Many of the children grew up in dire poverty. "Our kids are proud of their Kurdish identity, but they feel they are part of Turkey, and need to believe that against all odds they can succeed," says Gokhan Yildirim, the team coach.

One boy, Serazim Cucuboga, has been offered a scholarship by America's Franklin & Marshall College. Two others will display their skills before NBA headhunters at summer camp in Pennsylvania. "My dream is to play in the NBA," grins Ibrahim Adan, a 14-year-old. Melis Birder, a Turkish film-maker who is co-producing a documentary on the team, believes its success can shatter prejudices against Kurds. Conversely, says Mr Yildirim, "the more the kids see of Turkey, the more they feel attached." Turkish restaurant owners may turn them away and nationalist thugs may stone their buses, he says, but "our country is beautiful".

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Spanish politics

The people of the People's Party

The likely next Spanish prime minister is a man of some mystery



A bearded man heading for victory

SPAIN will soon be a country for old men. Most new prime ministers are in their early 40s. But the next one will be a grey-bearded veteran. The choice will be between Alfredo Perez Rubalcaba, the Socialist deputy prime minister, who must lead his party into a tough general election due by next March, and Mariano Rajoy of the conservative People's Party (PP). The voters are set to choose Mr Rajoy. An image consultant's nightmare, the bespectacled Mr Rajoy is a dull candidate. He looks like a provincial land registrar-which, indeed, he was before embarking on a political career. He has twice lost elections: his party is bad at ejecting losing leaders. Yet he may win next time with an absolute majority.

Spaniards still complain they know too little about what the enigmatic 56-year-old will bring. Victory will go to him because the election will be lost, not won. The voters savaged the Socialists in municipal elections on May 22nd, giving the PP a record ten-point lead. They had reason to punish their Socialist prime minister, Jose Luis Rodriguez Zapatero. A once-booming economy crashed on his watch. Unemployment is over 21%, growth may be low for years, bond yields are high and deficit-cutting is causing real pain.

Mr Rajoy has played watch and wait, being careful not to frighten voters with dramatic, drastic proposals. He has shed the "nasty party" baggage that damaged the PP in 2008. He has abandoned overblown claims that Mr Zapatero is tearing Spain apart by giving more autonomy to its regions or destroying the family. PP hints that the region of Castilla-La Mancha is bust or that Spain's health system will not survive the year also look alarmist. Mr Rajoy also rarely mentions terrorism practised by the Basque separatist group ETA. Yet many in the party, especially on the right, wish he were more forthright and dynamic. Others offer the faint praise that he will be a better prime minister than opposition leader. Some blame Britain's David Cameron, a fellow conservative: Mr Cameron scared voters by being too open about austerity, they say, and failed to win an absolute majority.

All this leads to frustration about the PP's plans. "I don't think anyone really knows what he will do beyond balancing the budget, and that doesn't help calm markets," says Jesus Fernandez-Villaverde, an economist at the University of Pennsylvania. "The degree of courage will depend on the size of the parliamentary majority," says Lorenzo Bernaldo de Quiros, of Freemarket International Consulting. That the PP now runs many regions may not help, as some voters may start to see it as an incumbent rather than an opposition.

Mr Rajoy is famed for a trait of his native Galicia: leaving people guessing about his real intentions. But he is also tenacious. Plots to dethrone him as leader have come to nothing. In a party that covers the spectrum of the Spanish right, somebody will always gripe. He and his economic team deny they are hiding their plans, pointing to numerous parliamentary motions.

A Rajoy government will try to repeat the trick of the first PP government of Jose Maria Aznar after 1996. It met its deficit targets, cut taxes and enjoyed strong growth. Mr Rajoy will quickly pass an austerity package and cut corporate tax.

He will push through more labour reform, with or without union consent. And he will hack at business-suffocating red tape. But this is not 1996. Spain has fewer public companies to privatise and cannot count so much on European Union money. How the Aznar model can apply now will depend largely on Mr Rajoy's first finance minister. And who will that be? Like so much surrounding Mr Rajoy, it remains a mystery.

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Italy's referendums

Another setback for Silvio

The Italian prime minister is rebuffed by voters, again

HAS Silvio Berlusconi, Italy's prime minister, become wholly out of touch with his country? Or does he just not give a damn? He is on trial, charged with sex offences. His poll ratings are falling relentlessly, largely because of Italy's economic stagnation. On June 12th-13th he suffered his third and most significant political defeat in less than a month, when he lost a clutch of referendums. And what was he doing when the results emerged? Shopping for women's jewellery.

The four referendums, called for by the opposition, were about his government's legislative centrepieces: a law to revive nuclear energy; a pair to usher in water privatisation; and a fourth giving Mr Berlusconi and his ministers a way to slow trials in which they are defendants. For the results to be binding, the turnout had to be over 50%, something not achieved since 1995 in a legislative referendum. But, after Japan's Fukushima disaster, the chance of a quorum in the nuclear vote rose.

Mr Berlusconi opted not to fight on the issues, but instead to appeal to the courts to stop the referendums happening. When that did not work, he tried to keep down the turnout instead. The effect was to create a new trial of strength with his opponents, rather like the local elections in May when his party lost control of Milan, the prime minister's home town. Mr Berlusconi said he would boycott the referendums. Italian television, largely under his sway, mostly ignored them until shortly before polling. Yet it was the modestly funded opposition that won the day.

In the nuclear ballot, the turnout was 55%. The majority against Mr Berlusconi's proposed "nuclear renaissance" was an overwhelming 94%. Matching results in the other three referendums suggested that they had turned into a big vote of no confidence in the prime minister.

The centre-left was exultant. Pierluigi Bersani, leader of the main opposition Democratic Party (PD), said Mr Berlusconi should "step down and return his mandate to the president". As government supporters quickly noted, that was not a call for an early election. The PD has good reasons to avoid one. It is wary of going to the country under an electoral law introduced by Mr Berlusconi's previous government. And Mr Bersani and his party have done less than other opposition groups to bring about the sudden anti-Berlusconi mood that has gripped Italians. The referendums were the brainchild of Antonio Di Pietro's Italy of Principles party. Milan was lost to a candidate sponsored by the radical left.

All the signs now are that Mr Berlusconi's long ascendancy over Italian politics is drawing to an end. But what remains unclear is how his opponents (or his allies) can winkle him from office. His coalition partners in the Northern League are alarmed. But theirs is a right-wing (arguably far-right) movement that would find it difficult to ally with any opposition party. Were the League to bring down the government, it might condemn itself to irrelevance for years to come.

With the prime minister widely seen as the cause of the government's unpopularity, the League's leader, Umberto Bossi, could make his support conditional on Mr Berlusconi giving up the premiership. Until recently, the finance minister, Giulio Tremonti, would have been the obvious replacement: he is close to the League and internationally respected for keeping the budget deficit down during the euro crisis. But he and Mr Bossi are now on opposite sides of another confrontation.

The Northern League wants tax cuts to restore the government's popularity. Mr Tremonti is chary. On June 14th, however, he appeared to cede ground when he said that "the lowest possible rates" of income tax could help curb tax evasion. The markets will be watching closely to see if this remark heralds a return to fiscal indiscipline in the country with the biggest public debt in the euro zone.

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Welfare in France

Making work pay

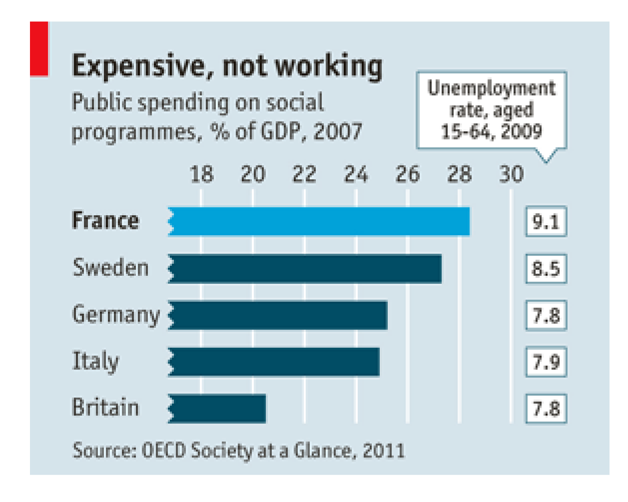
Support grows for the revolutionary idea of working in return for benefits

DECADES after America started to experiment with "workfare", requiring those on welfare to do some work in return for their handouts, France has woken up to the idea. Laurent Wauquiez, the Europe minister, recently called welfare dependency a "cancer in French society" and said that recipients should contribute at least five hours of community service a week. At first he was denounced from all sides. Yet his idea is now gaining ground.

The welfare payment exercising French minds is the *revenu de solidarite active* (RSA). It was introduced two years ago by Martin Hirsch, an anti-poverty campaigner co-opted into Nicolas Sarkozy's government, to mitigate the "poverty trap", under which unemployed people can be worse off if they accept a job because of their loss of benefits. The RSA is given to those without work but also, on a sliding scale, to those who take low-paid jobs. Mr Wauquiez's mild suggestion is that those receiving the payment when unemployed, roughly two-thirds of the RSA's 1.8m beneficiaries, should do something in return.

This prompted howls of moral outrage. The Socialist Party accused Mr Wauquiez of stigmatising the unemployed as "lazy". Martine Aubry, the Socialist leader, called his idea "shameful". He was denounced even in his own party: Francois Fillon, the prime minister, snapped that there were limits to how far members of the government should criticise its own policies.

Yet Mr Wauquiez's outburst, on a subject outside his ministerial portfolio, now looks less like a gaffe and more like an effort to prepare the ground for a change in social policy. "He got the theme right, but expressed it clumsily," says a senior figure on the right. Jean-Francois Cope, leader of Mr Sarkozy's UMP party, who is in charge of preparing the manifesto for next year's presidential election, has backed the idea, calling it "consistent with our philosophy", and a reminder that benefits should come with "rights and obligations". Recipients should work between five and ten hours a week, he said, helping with the elderly, school outings and so on. Those who refuse should have their benefits cut. The idea would be to use such experience as a springboard to proper work.



Such talk is revolutionary even on the right, which has done little over the years to trim France's benefit culture or to root out fraud. As a share of GDP, France spends more on social protection than any other member of the OECD rich-country club (see chart). Its mandatory unemployment-insurance system pays the French jobless a gravity-defying maximum of euro71,760 ($102,500) a year, depending on previous salary, for as long as two years. Thanks to such generosity, France has one of the lowest poverty rates in the OECD, with only 7% of the population on below half of median income. But it comes at a cost: as a share of GDP, public spending is now higher even than in Sweden.

Many politicians may have choked with indignation at Mr Wauquiez's plan, but most voters, no doubt mindful of benefit fraud, seem to approve. Fully 67% told one poll that they were in favour of requiring RSA beneficiaries to work. Even more surprisingly, 51% of left-wing voters agreed. This may explain why one Socialist presidential hopeful for 2012, Segolene Royal, who likes taking a bold line on social policy, says that she is not against the idea.

As Ms Royal points out-and as many American states have found-much depends on how a workfare requirement is applied in practice. Supervising teams of hedge-trimmers or litter-pickers, especially if they are unwilling, is costly and time-consuming. Some beneficiaries, such as those with small children, find it especially hard to work. As for the hope that such a scheme might smooth the transition from welfare to proper work, this can only be fulfilled if jobs are available. And that exposes a deeper problem. France may shelter its population well from poverty, but its unemployment rate is currently running at nearly 10%-and it has not dipped below 7% in over 30 years.

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The Balkans and Europe

Backwards and forwards

New obstacles on the Balkan route towards Brussels



Some talk of Alexander

IN THE western Balkans it is one step forwards, two steps back. Croatia is moving ahead, having won formal approval to become the European Union's 28th member, probably in mid-2013. But it is a very different story further south.

Macedonia is erecting a giant bronze statue of Alexander the Great, a move guaranteed to lose it friends and sympathy, and Albania is snarled in a seemingly unending political crisis.

This year marks the 20th anniversary of Macedonia's independence and the start of its conflict with Greece. The Greeks say that the very name Macedonia implies territorial claims to a part of Greece. In the latest round of the dispute Greece has halted Macedonia's progress towards joining NATO or the EU. In March the International Court of Justice began hearing a case brought by Macedonia against Greece over NATO.

Macedonia has won much sympathy for its position. So when the Macedonians said they planned to put up a statue of Alexander in the centre of Skopje, many assumed it was a joke to rile the Greeks, who see him as central to their history and culture. Not a bit of it. Cast in Italy, the pieces have just arrived-and the statue will go up in the next two weeks. EU officials are in despair. Not Nikola Gruevski, the Macedonian prime minister. He has done well with such populist gestures, handily winning a general election on June 5th. But can he now restart the stalled EU accession process, the best way to create confidence and bring foreign investment and jobs?

Albania, meanwhile, has been politically paralysed since a disputed election in June 2009. It is getting worse. Eurocrats scoff that the Albanians cannot even hold a local election without its going wrong. Edi Rama, leader of the opposition Socialists, has been mayor of Tirana since 2000. When the ballots were counted after an election on May 8th, Mr Rama seemed to have won by ten votes out of some 250,000.

Not so, said the electoral authorities. Some people had put their ballots in the wrong box; in fact the candidate of the ruling Democratic Party was ahead, by 81 votes. "We want every vote to be counted," insists the Democratic Party's Aldo Bumci. Mr Rama retorts that the election rules changed during the count and there were more votes in the boxes than voters. Five weeks on, the dispute has still not been settled. Unfortunately, sighs Edith Harxhi, Albania's deputy foreign minister, this means that the EU integration process has also stalled.

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Charlemagne

On target

Robert Gates's parting shot exposes Europe's military failings



THREE months into the war in Libya, and confident talk of Muammar Qaddafi's forces being broken by NATO's bombs is being accompanied by worries that the alliance itself is feeling the strain of a prolonged campaign. The British naval chief says that, if the war drags on beyond the autumn, he will have to take "challenging decisions" about how to deploy his ships. His French counterpart complains that if his only carrier, the *Charles de Gaulle*, remains off Libya for the rest of the year it will have to be out of service for maintenance throughout 2012. Norway, one of the few stalwarts ready to bomb Colonel Qaddafi's forces, says its small air force can no longer cope: it will cut back operations now, and cease them altogether on August 1st.

Yet it was a thunderous parting shot from Robert Gates, the outgoing American defence secretary, that most cruelly exposed Europe's shortcomings. At the outset Europeans relied on the Americans to lead the operation in Libya. Now under NATO control, they still depend on America to identify targets and provide air-to-air refuelling. American experts were rushed in to boost NATO's command centre in Naples. "The mightiest military alliance in history is only 11 weeks into an operation against a poorly armed regime in a sparsely populated country," Mr Gates pointed out. "Yet many allies are beginning to run short of munitions, requiring the US, once more, to make up the difference."

The underlying reason for these failings is no secret. Most Europeans spend too little on defence, and what they do is often wasted. That Europeans would struggle, militarily and politically, to maintain tens of thousands of troops in far-off Afghanistan is understandable. That they should be tiring in a limited air campaign on Europe's own borderlands (less intense than the Kosovo war of 1999, for instance) suggests something bigger is amiss.

Libya reveals an uncomfortable fact about NATO. Its military strength is determined mainly by what America is ready to put in. Without America, the military punch of even the most powerful European members, Britain and France, is limited. What is more, as Mr Gates also said, Europeans should not take America's commitment for granted. He is among the last American cold warriors to hold office; a new generation of leaders may not share his attachment to the alliance, and may even come to see it as a burden. Unless Europe does more, NATO faces "collective military irrelevance" and a "dim and dismal future".

Mr Gates's words may be dismissed as the curmudgeonly mutterings of a retiring politician. Every American administration has hectored the Europeans about burden-sharing. John Foster Dulles, Eisenhower's secretary of state, threatened an "agonising reappraisal" in 1953. American leaders invariably come to value the Europeans as useful political allies if not military ones. Even the unilateralist George Bush junior made up with his European critics. Amid the agonies of Iraq, American generals took to quoting Churchill: "There is at least one thing worse than fighting with allies- and that is to fight without them."

NATO has survived long past its initial mission of confronting the Soviet Union. It frets endlessly about its purpose, but is now busier than ever. And yet there is a mental change, says Kurt Volker, a former American ambassador to NATO. "For

Europeans NATO means America; for America it means Europe. It no longer belongs to any of us." This estrangement could worsen. With the end of the cold war, America's security concerns have shifted from Europe to the Middle East, South Asia and, ultimately, to a rising China. Europe should take care of its own security; its value lies in what help it can give.

But the debt crisis means that European countries are cutting defence spending. Just three now reach NATO's target of spending at least 2% of GDP on defence: Britain, France, and Greece. Several spend 1% or less. This compares with America's commitment of some 5% of GDP. As America, too, starts to pare back defence, it will become more critical of European free-riders.

Big bucks, small bangs

Libya is a warning. America no longer expects to lead military action; even its backseat role is controversial at home. The southern Mediterranean should be of vital importance to Europeans. If they cannot act here, what is the point of their spending $275 billion on defence? In these days of austerity, Europeans will not suddenly spend more. But they could at least spare defence the biggest cuts-and they could co-ordinate better to ensure that NATO retains a balance of forces.

Now, more than ever, Europeans need to get more bangs for their bucks. They have more soldiers than America, but can deploy far fewer abroad. Their budgets are fragmented among lots of armies, navies and air forces. Europe produces 20 different kinds of armoured vehicles, six types of attack submarines and three of fighter jets. With the cost of military equipment rising faster than inflation, European countries plainly need to find greater economies of scale. This does not imply creating a European army, as some favour. That would be a recipe for paralysis: just try sending the Franco-German brigade to Afghanistan, let alone Libya. Instead Europeans need to specialise and, when they do similar things, they should pool equipment.

None of this is easy. Countries want neither to depend on others nor to be dragged into somebody else's war. Some have defence industries to prop up. But Denmark has given up submarines, letting it play a bigger role in Afghanistan and Libya. Several countries share C-17 transport aircraft. Last year's Franco-British defence pact points the way: the two countries will co-operate in, among other things, nuclear tests, aircraft-carrier operations and a joint expeditionary force, as well as unglamorous but vital support tasks. The lesson is clear: pool it or lose it.

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Police governance

Quis custodiet?

Government plans to bring politics into policing might create more problems than they solve



"THE police are the public and the public are the police," said Sir Robert Peel, founder of London's Metropolitan Police, almost two centuries ago. That officers cannot cut crime without the public's co-operation has come to be seen as the basic principle of policing in a democratic society. The government believes that cherished relationship has broken down.

The men and women in blue have become divorced from local concerns, the thinking goes, too controlled by Whitehall and too dismissive of the low-level yobbery that blights many lives. So a bill currently making its way through Parliament would dramatically change how and by whom the police are held to account.

At the moment each force answers to a Police Authority, an appointed body comprising councillors and others, which sets local priorities and a local policing levy, and hires and fires the chief constable (who otherwise enjoy "operational independence"). The Home Office approves those appointments, sets national strategy and determines cash grants. Under the government's plan, from May 2012 the authorities will be replaced by elected police and crime commissioners-one for each of the 41 police-force areas in England and Wales outside London-who will in effect inherit the authorities' powers.

David Cameron is a true believer in this reform. It reflects his broader enthusiasm for pushing control of public services down to local communities and citizens. Opposition, however, has proved surprisingly strong, and not only among police and police authorities: the proposal was rejected by the House of Lords last month, though ministers expect to push it through Parliament soon. But is the change-as radical in its way as others to health care and welfare that have garnered much more attention-either necessary or sensible?

The Maidstone way

The experience in Kent suggests that it might not be. The county is a reasonable place to test how the police and the public are getting on together. It has a middling-size force of around 3,700 police officers. With the capital to its north, ports in the south, farms in the middle and market towns such as Maidstone that are famed for Saturday-night inebriation, its policemen face a rich mix of challenges.

They and their authority think they are doing quite a good job-and local people seem to agree. Satisfaction with the police among victims of crime in contact with them is over 87%. A shop manager in central Maidstone praises the force for getting a grip on troublesome youths; a bar worker reckons it has improved the night-time scene. Crime and anti-social behaviour has fallen by 27% over the past six years, against an average drop in England and Wales of 21.5%. So Kent's police are probably doing something right.

For Ann Barnes, the independent chairman of the Kent Police Authority, that something is listening to communities and figuring out how to deliver what they want: exactly the sort of method that the putative commissioners are supposed to instil. The police and the authority hold surgeries in schools, offices, old folks' homes and online. They attend parish-

council meetings. Responding to requests for a tougher approach to petty crime, the authority asked the police to form "neighbourhood task teams" to deal with issues beat constables couldn't handle.

Kent is not alone in seeing crime drop, or in stressing links with the community. The previous, Labour, government made neighbourhood policing-the visible deployment of officers who work with local people to prevent crime rather than just solving it-a national priority. National surveys show a concomitant uptick in confidence in the police from around 2008. The problem the reform is supposed to fix-a disconnect between police and the public-seems to be getting better.

Nevertheless, there is evidence that many people still think the coppers do not pay enough attention to anti-social behaviour. Many police authorities, faceless and cowed by knowledgeable police chiefs, are unable to hold them to account effectively. That is partly because central government has sucked power from them, dictating targets and practices; one aim of the current reform is to reduce interference in local policing by Whitehall.

But Nick Herbert, the policing minister, and others think the main weakness is the lack of identifiable individuals with clear responsibility for seeing that local needs are addressed. They have looked to America, the source of various successful crime-fighting approaches in recent decades. Most of its 17,000-odd police forces are subject to some sort of democratic control: city chiefs are mainly appointed by elected mayors, or bodies created by them; rural sheriffs are often directly elected.

Yet many American experts, among them William Bratton, who has run the police in New York and Los Angeles, think their experience holds limited lessons for police governance in Britain. The quality of policing depends more on techniques and management than on the specifics of electoral accountability, Mr Bratton says.

In Britain, there are two main objections to the government's plan. The first is that mixing local politics and policing is an inherently bad idea. The police are supposed to enforce the law "without fear or favour". Running for commissioner will cost money, which is most likely to come from political parties (meaning that party hacks predominate). Donors might expect a candidate to give particular weight to their views, or even to have a quiet word with the chief constable on occasion.

And to get elected candidates will naturally promise what they think people want, which could well mean tougher enforcement of some laws than others. Local taxpayers are entitled to a say in how their money is spent. But "we don't just police majorities," points out Sir Hugh Orde, head of the Association of Chief Police Officers. Much policing involves small, unpopular groups-Irish travellers, for example, or drug abusers-with no electoral clout. Better, say some, to strengthen police authorities than to junk the system for one that threatens police impartiality.

The second objection is that the bill gives too much power to individual commissioners, with too little to counterbalance it. The government proposes that they be monitored by new appointed panels; those could overrule hiring and firing decisions or put the local policing tax to a referendum-but only if 75% of their members agree. The election of one individual with the single mission of controlling the police seems to have no direct precedent in America or elsewhere. "We have said we will look at checks and balances," says Mr Herbert. But "we will be wary of proposals so constraining that it would be impossible for a commissioner to do his job."

In Kent, Mrs Barnes has been asked to run for commissioner. But she believes party politics have no place in policing, and fears independents won't be able to stand unless they are millionaires or have rich backers. If the government gets its way, politics will have a very big role in policing from next May.

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Changing menus

Chop suey, phooey

How Chinese visitors are changing Chinatown



Ask for the proper menu

A HONG KONG chef can do some nifty things with tripe-not all of which appeal to British palates. Faint-hearts are duly warned by the tripe bubbling away in HK Diner, an unusually authentic cafe in London's Chinatown, with a following that includes homesick Chinese students, former British residents of Hong Kong and off-duty staff from other nearby eateries (the diner closes at 4am).

Most local restaurants hide challenging delicacies on a separate, Chinese-language menu, says the owner, Jon Man. A decade ago Mr Man also offered two menus, the English one filled with the bland, gloopy inventions (sweet and sour pork, chop suey) familiar to generations of visitors to Chinatown, a grid of fragrant, grease-shined streets between Soho and Leicester Square. Mr Man owns another restaurant in Bristol, which still modifies dishes for locals. But now, in London, "We do the real thing."

A pragmatic bunch, Chinatown's restaurateurs-many from Hong Kong families who arrived in the 1950s and 1960s-have made many concessions to British tastes. The Cantonese themselves eat roast duck at room temperature, chopped up with its bones: food with "texture", explains Geoffrey Leong, whose family owns some 20 restaurants in London. Real Chinese food does not swim in sweet sauces, as the ersatz kind tends to; it is dry and often spicy, perhaps flecked with chilies or numbing Sichuan pepper. In authentic restaurants, the cooking is the whole point, adds Mr Leong; the romantic atmosphere preferred by many Britons is irrelevant. Indeed, bright lights are a plus, so diners can see they are getting fresh, clean stuff.

But in the past few years Chinatown's market has changed. It now includes lots of Chinese mainlanders, both visiting students and businessmen. The British themselves travel more and have developed more adventurous tastes. Meanwhile the old customers-Western tour groups, drinkers looking for late-night stodge-have become less plentiful. Though all-you-can-eat buffets still abound, a growing band of pioneers now flaunt good food, cooked right: not just standards from Canton or Sichuan, but Shanghainese dumplings (bursting with ginger-scented broth) or Taiwan's finest stew, "three cups" chicken.

Amid the new opportunities, however, some veterans are struggling. Rents are rising; crippling new visa rules are hitting both chefs and customers, especially foreign students. The London Chinatown Chinese Association (LCCA), which represents local businesses, is trying to halt a recent influx of betting shops. "We don't want a mini Las Vegas," says Suzannah Kwok of the LCCA.

Chinatown hangs in the balance. Yet it has never been easier to find good cooking there. Hurry, food-lovers.

Bank reform and the economy

Jumping the gun

The chancellor accepts tough new rules on banks

IN BRITISH politics, independent commissions are often a diversion that allows governments to be seen to be doing something about a difficult issue. Sometimes their findings are respectfully ignored. So it was a mild surprise when on June 15th, three months before the Independent Commission on Banking (ICB) is due to release its final report, George Osborne, the chancellor of the exchequer, told the City's annual Mansion House dinner that he would endorse the commission's main findings.

The ICB's most radical idea, set out in its interim report in April, is to force British banks to ring-fence their retail-banking arms into separately capitalised subsidiaries, which can then be salvaged if the rest of the bank goes bust. The banks' trading and investment-banking divisions would, it is hoped, be allowed to live or die without any help from the government.

The commissioners are busily working out where to draw the line dividing retail banking from the riskier kind. For instance, retail banks often help small companies hedge their currency exposures, a service also provided by the investment-banking parts. The changes would increase the borrowing costs of banks by ending cross-subsidies between their different bits, but no one, including the commission, is quite sure by how much.

The ICB's other headline proposal is that large British banks should have to hold bigger buffers against losses than currently proposed under Basel 3, a new international agreement on minimum capital requirements. Mr Osborne said the European Union should adopt these new Basel standards in full, a call echoed by Sir Mervyn King, the Bank of England's governor, who was speaking at the same event. But both speakers said the EU should allow countries to set higher capital standards if national circumstances required them. Varying such rules is a key part of the "macroprudential" regulation to be run by the Bank's new financial-policy committee, which held its inaugural meeting on June 16th.

Mr Osborne did his best to sound upbeat about the economy: take out the shrinking financial sector and it had grown healthily since the recovery began at the end of 2009, he said. But he acknowledged that a hard road had been made harder by the rise in oil prices and the disruption caused by the tsunami in Japan. Sir Mervyn was blunter: the economy, he reckoned, had grown by only around 1% in the past year. Sir Mervyn also implied that interest rates could only rise in earnest once the banks were in better shape.

What prompted Mr Osborne to back the commission so soon? Perhaps it was a concern that the ICB might yet come up with something more radical if he dallied. The chancellor also announced that Northern Rock, a mortgage-lender that was nationalised in 2008, is to be sold by the government later this year. That suggests a different motive: a desire finally to draw a line under the banking crisis.

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The NHS

Sweetened pill, no cure

The coalition's retreat on health-care reform looks like a backward step for the NHS



OK, you got me

DAVID CAMERON and Nick Clegg were this week subjected to an ear-bashing by an irate surgeon. He interrupted a hospital visit by the prime minister and his deputy that marked their climb-down on reforms to the National Health Service. It turned out that the surgeon was upbraiding cameramen for breaking hygiene rules; but the coalition duo might have reflected that hospital doctors have a way of getting their own way, no matter how hard politicians try to get a grip on the NHS.

After a bizarre consultation process conducted as the relevant legislation was making its way through Parliament, NHS professionals, allied with Mr Clegg's mutinous Liberal Democrats, have managed to revise or rebuff key elements of the health-care reform plan. For Mr Cameron, and especially for Andrew Lansley, the health secretary, it has been a humiliating process.

The messy bill needed some adjustments. Mr Lansley's bid to transfer more control over budgets and the commissioning of care to family doctors (GPs) was hasty; it will now be slower and voluntary rather than rushed and compulsory. Less sensibly, hospital doctors and nurses will have a say in commissioning too.

That worries critics such as Julian Le Grand of the London School of Economics (LSE), a former adviser to Tony Blair's government. The split between purchasers of care (GPs and their representatives) and providers (ie, hospitals), introduced by the Conservatives in the 1990s, is being weakened, he says. Mr Le Grand thinks that involving hospital doctors in commissioning "could well lead back to cartels of local providers, keeping out competition".

Competition was at the heart of the argument over Mr Cameron's reforms. As with previous NHS rows, the basic dispute was between those who want to raise standards through more patient choice, and Lib Dems and others who want the NHS to remain standardised and avoid the supposed taint of "privatisation". And the result, says Mr Le Grand, is that the hard-fought battle to open up the NHS to patient choice and diverse providers, stepped up under Mr Blair with innovations such as privately run but NHS-funded treatment centres, "seems to have ground to a halt".

For competition enthusiasts, perhaps the most worrying change is that Monitor, the health regulator, will no longer focus on promoting competition; nor, the government now says, will competition be "an end in itself". The new version of the

plan outlaws "any policy to increase the market share of a particular sector of provider". That might simply sound like ensuring a level playing field, but for some market-minded Tories it signals a retreat.

Much depends on how such opaque wording is interpreted. Ali Parsa of the Circle Partnership, which manages the first big hospital within the NHS system to be run by a private firm, is upbeat: "I can't see anything explicit that would stop a private provider bidding to offer a service. It will depend on how the bill is implemented." But to others the revised plan looks like a fix to pacify NHS professionals and the Lib Dems. The impression is that competition and innovation will be tolerated at the margins, rather than actively promoted.

Yet with an ageing population, rising demand and the NHS's need to find pound20 billion ($32 billion) in efficiency savings over the next four years, a fudge now may well lead to more dissatisfaction and shortfalls in the future. Meanwhile, the rejig has spawned new layers of bodies to ensure accountability. There will be "clinical networks,""clinical senates" and a central, powerful commissioning body with local arms. So much for the bureaucratic cull Mr Lansley once promised.

Beside its many strengths (national coverage, services free at the point of delivery), the NHS remains overly bureaucratic; productivity has lagged behind the generous investment in it. England still trails behind comparable countries in its treatment of respiratory diseases and cancer. Scandals over the care of vulnerable patients and hospitals that fall below acceptable standards suggest the service is more prone to failure than its uncritical admirers admit. These re-reforms have offered a short-term palliative to a government in distress, but no long-term cure.

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Online gambling

The bet collectors

The odds of a government windfall from online gambling are low

Correction to this article

GAMBLING, like pornography, is perfectly suited to the internet. Yet while the sex industry has largely evaded regulation, most countries have tried to control online betting to some degree. America in effect banned it, but Britain sought to become a hub for it; a new, liberal licensing regime came into force in 2007. The tactic hasn't worked. Online betting has proliferated: there are now more than 2,000 sites worldwide. But even among those that target British consumers, most have based themselves abroad. The would-be internet Vegas of Europe is more like an abandoned seaside town.

Now the British gambling industry as a whole is being overhauled. The sale of the Tote, the state-run bookmaker, agreed earlier this month, was one part of that effort. In the next few months the government plans to outline new regulations for online betting, which currently accounts for a fifth of the pound11 billion industry, though that share is rising.

The rhetoric that accompanies the announcement will doubtless be about protecting vulnerable citizens and preventing crime. But another big concern is the tax take-or rather the lack of it. The Treasury's gambling revenues have stagnated since 2007, even as the industry has grown. That isn't surprising: it is perfectly legal for websites to woo customers in Britain without subjecting themselves to the 15% gaming duty resident companies face (in Gibraltar, one alternative location, the rate is 1%).

The gambling firms' financial manoeuvres are a problem for some sports, too, particularly horse racing, which since 1961 has benefited from a levy paid by bookmakers to fund events and training. Few fixtures have ever been as popular with punters (or attracted such a fine array of hats) as Royal Ascot, which was held this week; even so, the volume of bets on

less glitzy races has declined. The rise of online operators, only a handful of which pay the levy, has compounded racing's travails.

But how to make online gambling pay? Governments have long staked a special claim to "sin" taxes. That still works for alcohol and cigarettes, but not when the sin is virtual. Gambling levies have in the past been based on the physical premises in which betting takes place: the internet renders that approach unworkable. Some countries, such as Austria and Sweden, have defended their revenues by squeezing out offshore and foreign outfits, but that sort of protectionism is being challenged. For example, in 2010 the European Court of Justice found that the Netherlands had violated free-trade rules by refusing to consider an application for a licence from Betfair, a gaming company based in London. The European Commission is now looking into gambling regulation across the union.

The betting companies naturally argue that the government's best hope of bringing gambling firms and revenues back to Britain is to slash the gaming duties. The relatively high rates explain why Britain's two biggest bookmakers, Ladbrokes and William Hill, have moved their online operations overseas. Even the Tote based its online services offshore just before its sale. In the current fiscal climate, however, the chances of such a tax cut seem slim.

It is hard to see how the government can overcome these odds. And with the advent of betting on mobile phones, even more of the market is moving beyond the taxman's reach. The even bigger worry is that where the sinful have led, others are following: industries such as financial services and retail are going online, and offshore, too.

Correction: We originally wrote that Betfair had moved to Gibraltar, but it is still based in London. This was corrected on June 17th 2011.

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McLaren cars

Small is beautiful

An unusual venture has some lessons for manufacturing success in Britain



Not your average factory

THE headquarters of McLaren, a successful Formula 1 racing outfit, seems too plush for manufacturing. Set in acres of Surrey parkland, the glass-fronted structure, designed by Norman Foster, curves gracefully around a small lake whose water cools the building. All is spotless and quiet, with no greasy overalls (the staff wear Hugo Boss) or clunking machines. The ambience is more art gallery than shop floor. Yet as many as 4,000 cars a year will soon be made here.

A vast tunnel links the main building to a new factory, also designed by Lord Foster, where production of McLaren's pound170,000 sports car, the MP4-12C, begins later this year. Turning a car out every 45 minutes would be slow going for Nissan or BMW (which have both recently announced new investment in Britain); for supercars it counts as mass production.

British engineers are typically better at the innovation needed for racing than the steady replication mastered by Japanese or German firms. But McLaren has some pedigree as a commercial carmaker. Its first sports car, the F1, now sells for several times its 1990s sticker price of pound540,000. Only 107 F1s were made, but a subsequent joint venture produced the Mercedes-McLaren SLR, which sold more than 2,000. "It taught us the quality control of Mercedes-a great lesson for us," says Ron Dennis, McLaren's boss. There are already 1,700 orders for the new 12C, many from America.

This early encouragement is reward for McLaren's efforts to sprinkle some Formula 1 stardust over its commercial car. The tunnel ensures a two-way flow of people and ideas; factory staff eat in the same cafe as the racing team. The chassis of the 12C is made of carbon fibre, the light but strong material that gives Formula 1 cars their speed and agility. Until now such technology has been applied only to far pricier cars. Mr Dennis believes British firms need to aim high: "Labour is dear and land is scarce; so our manufacturing has to be world-class."

Unusual as it is, McLaren shares several characteristics with other British firms-making medical instruments, military kit, communications satellites, luxury yachts and even bicycles-that have thrived in global markets. They tend to be smallish outfits that make high-quality niche products. The need for close monitoring to ensure unfailing quality means production is kept onshore. That allows for close links between design and assembly-essential where innovation means frequent tweaks to the manufacturing process.

The best can also turn home production into a marketing tool. As with Rolls-Royce's cars or Brompton's folding bicycles, McLaren's upscale Britishness is an asset in foreign markets. Its swish production site helps sustain that appeal.

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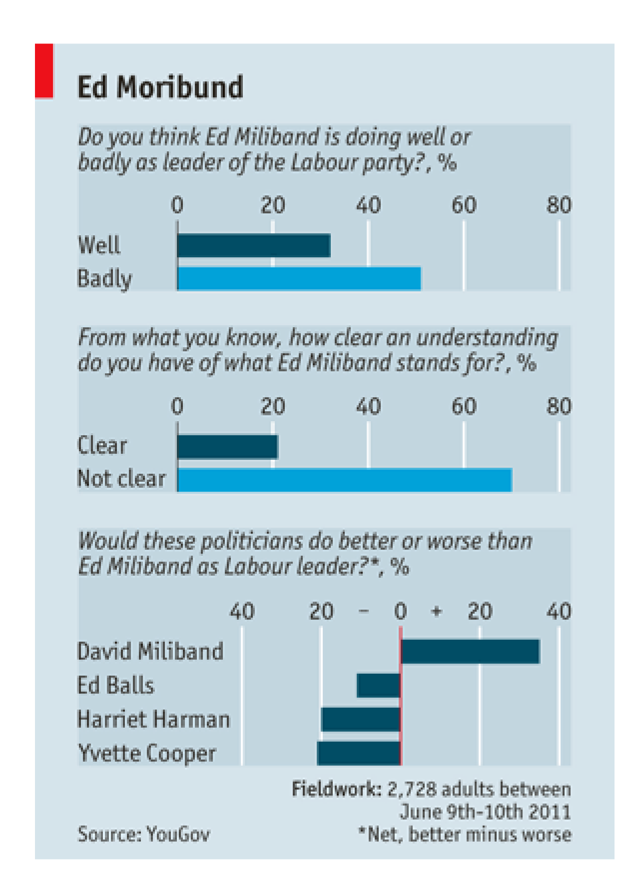
Ed Miliband's woes

The trouble with Ed

Labour is suffering from a lack of ideas, not just a struggling leader



IGNOMINIOUS policy climbdowns, a stalling economy, irksome coalition partners-the least of all of David Cameron's worries is Ed Miliband. The Labour Party's leader is struggling to persuade voters, and some of his colleagues, that he is an effective figurehead for the opposition, let alone a plausible prime minister. Reports of a plot against him by Ed Balls, the shadow chancellor, or supporters of David Miliband, the former foreign secretary defeated by his younger brother in the party's leadership contest last year, are mistaken. But grumbles about Ed Miliband's supposed left-wing instincts and lack of vigour abound in his shadow cabinet.



Mr Miliband is held in even lower esteem by the general public. A YouGov poll released on June 12th showed that a majority of voters think he is doing badly as Labour leader and are unsure what he stands for (see chart). By a huge margin, they say his brother would do a better job. It is not much consolation that they think all the other mooted alternatives-including Mr Balls, Harriet Harman, the party's deputy leader, and Yvette Cooper, the shadow home secretary-would be worse.

On June 10th details emerged of an alleged attempt by Gordon Brown and his advisers to oust Tony Blair in 2005. Mr Miliband was only loosely implicated; but, aside from his decision to run against his brother, his association with Mr Brown is the only thing many voters know about him. His strategists are striving to fix this lack of definition. A speech on June 13th on "responsibility", in which he deplored its absence among some bankers and welfare claimants, was a start.

But there are two problems with this mission to define Mr Miliband. First, although ambiguity about his beliefs is one of his problems, it is not the only one. For many, the youthful, adenoidal Mr Miliband does not look or sound like a prime minister. Voters' immediate reactions to him in focus groups conducted by the Labour Party are said to border on the cruel. Superficial though these problems might be, they matter-as William Hague, the foreign secretary who rarely seemed prime ministerial during his time as Tory leader from 1997 to 2001, can attest.

Second, Mr Miliband's lack of alternatives to the government policies he attacks is part of a broader intellectual malaise on the left. From the early 1990s to the middle of the last decade, most new ideas, such as tax credits and "trust funds" for babies, came from the centre-left. Even market-driven policies, such as the introduction of more choice and competition in the public services, owed more to Blairite wonks than to right-leaning think-tanks, many of which seemed to stop thinking when Margaret Thatcher left office.

Recent years have seen a reversal. The intellectual balance of power resembles that of the 1980s, when the right pioneered policies such as privatisation and council-house sales, while the left was in a defensive crouch. The coalition's reforms of schools, welfare and policing have their roots in young think-tanks such as the Centre for Social Justice and Policy Exchange, created to fill the void left by august but inactive Thatcherite bodies such as the Centre for Policy Studies and the Institute of Economic Affairs. Nothing like this rejuvenation has happened on the left.

It is hard to see what Mr Miliband can do about this. Part of the problem is the austere fiscal context: left-wing ideas tend to cost money. And though there are many former Blairite ministers and advisers with interesting thoughts on localism and public-service reform, Mr Miliband has been rebuffed whenever he has offered them roles in his team. They remain glum about the rejection of his brother, who is closer to them ideologically, and want nothing to do with what they suspect will be another Labour defeat at the next general election.

The future's blue

The closest thing to hope comes in the shape of "Blue Labour", a nascent movement of thinkers and activists who, echoing Mr Cameron's "Big Society", say that Labour should be less statist and more communitarian in its outlook. Maurice Glasman, an academic who was ennobled earlier this year, is one proponent. Marc Stears, another academic and an old friend of Mr Miliband, is another. Critics, including Mr Blair, say Blue Labour's reverence for mutual guilds, stable communities and other trappings of pre-war Britain is too backward-looking for modern voters.

Still, Mr Miliband is likely at least to flirt with such thinking in the coming months. His advisers worry that Mr Cameron is building a monopoly on notions of community, conscience and responsibility-leaving Labour looking like uninspiring spendthrifts. Blue Labour also offers Mr Miliband a way of moving to the centre ground without embracing the Blairite zeal for markets that he has never shared.

Mr Miliband's electoral strategy, which is to target the low-to-middle-income earners who accounted for most of the 5m votes Labour lost between 1997 and 2010, is smarter than many allow. But the irony is that a truly disastrous Labour leader would be less of a problem for the party, as he or she could be removed. A far worse scenario for Labour is that its leader will be good enough to hold on until the next election, but not good enough to win it.

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Bagehot

A very British paradox

Why the British welcome foreign takeovers, but dread being taken over



PERCHED on the edge of the English Channel, the people of Dover know all about abroad. On a clear day, they can see France with the naked eye, two dozen miles away. Julius Caesar made an invasion attempt there; many others followed. During the second world war Dover was shelled by giant, cross-Channel guns. Few British towns feel so close to the outside world.

Proximity has not made the people of Dover love their neighbours, but it has made them pragmatic. Foreign firms own the three ferry lines that serve the cross-Channel port, the town's mainstay. Locals miss British-owned boats, but would hate today's ferry operators to leave. Now, amid talk of a privatisation, a French bidder is seen as a front-runner to buy the port itself. The tabloid press is outraged, running images of Spitfire fighters over Dover's white cliffs, and calling a foreign owner "unthinkable".

Such pantomime jingoism sells newspapers, but misses the nuanced position of locals. "Most people probably don't want the French here," admits Leanne Ward, a teacher's assistant, as she ushers a gaggle of schoolchildren dressed as Romans (bedsheet togas, plastic swords) into the town museum. But if the French brought investment, she says, "People would start to come round." The local MP wants the community to buy the port with funds raised in the City. In a straw poll, residents just want someone, anyone, to revive their town, a sad spot that gains little from the lorries thundering through. "I'd like to keep the port British," says Julie Bowers, a shopper. "But jobs matter more."

Her reasonable views point to a broader British paradox. Though patriotism runs deep in Britain, the specific link between sovereignty and corporate ownership is weak.

Consider an imaginary Englishman's day. He wakes in his cottage near Dover, ready to commute to London. Chomping a bowl of Weetabix, a British breakfast cereal resembling (tasty) cardboard, he makes a cup of tea. His privatised water comes from Veolia and his electricity from EDF (both French firms). Thumps at the gate tell him another arm of Veolia is emptying his bins. He takes the new high-speed train to London: it is part-owned by the French firm Keolis, while the tracks belong to Canadian pension funds. At St Pancras station, a choice of double-decker buses awaits. In the last couple of years, one of the big London bus companies was bought by Netherlands Railways. A second went to Deutsche Bahn, the German railway company. In March, a third was taken over by RATP, the Paris public-transport authority (its previous owners were also French).

The Dutch railways logo is emblazoned on buses across London. Thanks to RATP's logo, a stylised image of the River Seine now adorns hundreds more: most Londoners neither know nor care. As for Weetabix, a French billionaire is interested in buying the firm, according to press reports. Yet Britain still feels British.

For sale, but not selling out

That acceptance of foreign investment is the more striking because the British are outliers in the opposite way when it comes to resenting encroachments on parliamentary or judicial sovereignty. Britain tops surveys of hostility to the European Union. Public opinion seethes at rulings of the European Court of Human Rights.

Britain is almost a mirror-image of many countries across the Straits of Dover, where public opinion is neuralgic about corporate ownership, forcing governments to use shareholding rules or sovereign-wealth funds to block takeovers. In a celebrated display of pique, France declared the yogurt-maker Danone a strategic national asset after rumours of an American takeover. Yet the same neighbours embrace European or multinational governance pragmatically. True, not every French farmer welcomes Euro-regulation. Many Germans resent bailing out profligate EU partners. But overall, such countries juggle sovereignty and interests, seeking to plant top officials in multinational institutions, prodding legislation their way and generally playing the game.

These contrasting approaches have more than one explanation. For one thing, the British are more trusting of the market than many on the continent. They know that in a globalised world, domestic ownership is no guarantee that jobs will stay put. As long as contracts are written correctly, so that London buses turn up more or less on time (and remain red), British consumers seem willing to give foreign owners the benefit of the doubt.

For another, sovereignty is not monolithic. Every country feels that it does some things better than others, and defends such national strengths with special vim. The British are proud of their common-law justice system, their armed forces and (despite much grumbling about politicians) their long history of democratic self-government. They are sure Euro-alternatives would be inferior. In contrast, British state-run railways and utilities were never terribly good-so why not let Europeans run them? British carmakers lost their way years ago-so let BMW design the new Mini. In reverse, this rule even helps explain exceptions to public tolerance, as when Kraft bought the chocolate-maker Cadbury amid loud protests: the British think American candy is horrid.

The same is true across the Channel, where the most ardent pro-Europeans are actually seeking to fix a defect at home. Some feel their countries are too small to count in the world, so seek a share of a European superpower. Others despair of national politicians and hope foreigners will offer salvation via technocracy. Many Spaniards can quote the words of Jose Ortega y Gasset, a philosopher: "Spain is the problem, Europe is the solution." The British version might be: chronic underinvestment is a problem, foreign capital the solution. It is a less poetic credo, but has the virtue of being true. As for foreign systems of governance, Dover's citizens will tell you: that is what the English Channel is for.

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Internet security

An anonymous foe

Hackers hit big companies, the IMF and the headlines



DEFENCE companies such as Lockheed Martin have seen some of their cyber-defences penetrated. Sony, Google, Citigroup and other firms have had sensitive customer data swiped by high-tech intruders. The IMF has been the victim of a digital attack, as has the website of America's Senate. And a hackers' collective, called Anonymous, has threatened to launch an online assault on the computer systems of America's Federal Reserve unless its chairman, Ben Bernanke, agrees to step down.

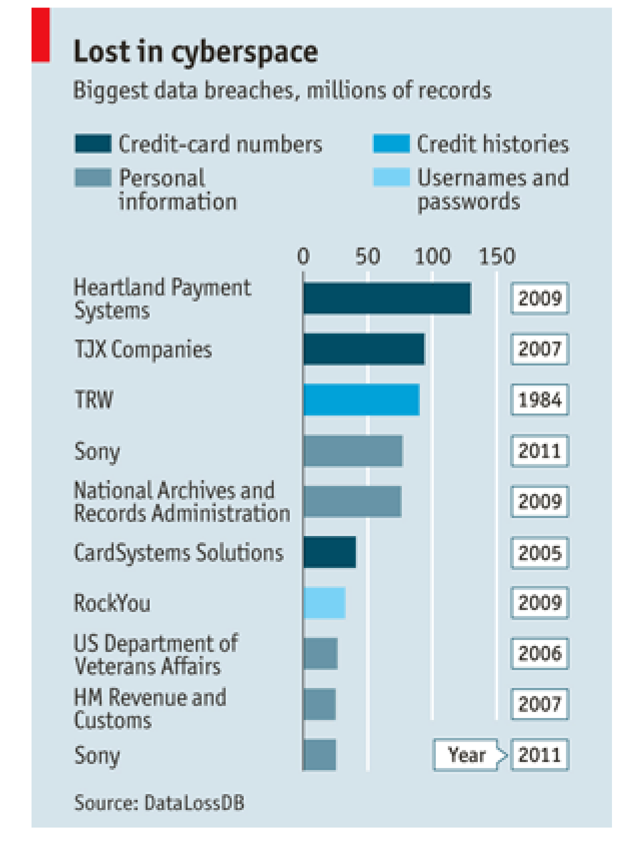
These and other events-such as the attack on the public website of the CIA, which was disrupted briefly on June 15th-have led to speculation that there has been a big increase in the threat posed by hackers in recent months. They have also reinforced a belief in some quarters that America is already engaged in a cyber war of sorts, most notably with China. Yet such claims are controversial.

Although some security experts think hacking activity has hit a new high, others say such claims are overblown. They point out that laws in some states in America now require firms to reveal if their defences have been breached, which means more hacking cases are coming to light that would previously have been buried. High-profile attacks, such as the ones on the Senate website, also get plenty of media coverage, fuelling talk of an epidemic.

The vast majority of the hacking that does take place is still perpetrated by different sets of private hackers rather than by cyber spooks. Take "hacktivists", members of such groups as Anonymous and Lulz Security, the outfit that has claimed responsibility for attacking the Senate's and the CIA's sites. (To "lulz" means to laugh at someone's misfortune in jargon.) Loosely organised and motivated by causes rather than money, these online rebels shot to prominence last year. They targeted firms such as MasterCard that shunned WikiLeaks after the transparency group began releasing secret diplomatic cables. And they thrive on the oxygen of publicity, boasting of their exploits on Twitter and other social-media services. Anonymous even announced its intention to target the Fed by posting a video on YouTube. This listed all kinds of recriminations against the central bank, including plenty of bizarre ones such as "crimes against humanity", scrolled down against a backdrop of eerie face masks that have become Anonymous's calling card (see picture above).

Hacktivists' assaults on state targets have prompted governments to try rounding them up. On June 10th Spanish police arrested three men that they claim are core members of Anonymous, which responded by causing a police website to crash. Then on June 13th police in Turkey rounded up another 32 alleged hackers from the group, which had recently attacked a couple of official websites, protesting plans to increase policing of web traffic.

Dmitri Alperovitch of McAfee, a web-security company, reckons that these and future raids will ensure that hacktivism declines as a source of online attacks within six to 12 months. But other experts warn that by trumpeting the arrest of Anonymous members, instead of simply labelling them as common-or-garden hackers, governments are boosting the outfit's standing. In the eyes of potential recruits such as young "script kiddies", who first turn to hacking chiefly as a test of their programming skills, Anonymous may now seem more attractive.



While hacktivists are gathering speed, another source of hacking-organised-crime groups-are going about their business as usual. But that means they are using increasingly sophisticated techniques to extract passwords and other personal information from their victims. This then gives them access to data they can profit from in various ways. These gangs are behind some of the biggest data breaches that companies have owned up to (see chart). They also often launch cyber-attacks using "botnets", or networks of computers that have been taken over without their owners' knowledge.

Code red

Such ploys can make it hard to identify exactly who is behind a particular online assault, says Adam Vincent of Cyber Squared, another security firm. In China things are particularly unclear. Jayson Street, a security researcher who has written a book on dissecting hacks, reckons the Chinese government itself is struggling to contain hacking within the country. He recounts how the website of one regional government he studied turned out to have been compromised by hackers who had made it part of a botnet. Chinese cyber-crooks are only too happy to rent out their networks to other gangs and governments who want to launch attacks using them. North Korea and Russia are said to be among the countries that have taken advantage of such offers.

This does not mean that the Chinese government is innocent of all of the hacking charges levelled against it. A recent study by McAfee of "SQL injections", a technique used to penetrate databases, showed that around half of the reported attacks in the first quarter of 2011 originated from China. Given the scale of such activity, it is likely that at least some of these were launched by Chinese cyberspies. Google has also dropped heavy hints that the Chinese government was behind a recent hack of Gmail, its web-based mail service, which let online snoopers read the e-mails of high-ranking American officials and those from some other countries.

But China is far from the only country engaged in cyber-espionage. It is surely no coincidence that according to McAfee's statistics the second-largest source of SQL injections in the first quarter was none other than America. Such probing of a rival's systems is hardly new, though it has assumed an exaggerated importance because of all the feverish talk of "cyber-warfare".

According to a report on cyber-security issued earlier this year by the Organisation for Economic Co-operation and Development, the chances of a conflict fought solely in the electronic world are extremely slim. The same report also warns that many high-tech attacks described as acts of cyberwar, including the antics of hacktivists, do not merit the label. That is surely right. Even so they are no laughing-or lulzing-matter.

Vaccines

A shot in the arm

The world's market for vaccines is being turned upside down



No pain, no gain

GLOBAL-HEALTH experts are often a glum lot, but a few billion dollars should be enough to perk anybody up. Over the past decade the Global Alliance for Vaccines and Immunisation (GAVI), founded with the help of the Bill and Melinda Gates Foundation, has become the world's main advocate of immunisation. Last year Mr Gates announced a new "decade of vaccines". But it seemed unclear whether the vast sums needed to pay for it would really be available; GAVI said it needed $3.7 billion between now and 2015 for new vaccines, mainly to prevent pneumonia and diarrhoea, the biggest killers of young children. On June 13th, at a conference in London, the group got its wish, and more, with donors pledging $4.3 billion to help immunise 250m children.

If they come through with the money, the world may be indeed on the verge of a vaccine boom. Drug firms have been researching vaccines for everything from addiction to cancer. As important, the past decade has seen changes in how vaccines are developed, financed and delivered-solving, at least partially, the conundrum of the vaccine market: poor regions have ample demand for vaccines but little ability to pay for them. As a result, immunisation rates in the poor world have soared.

One reason for this success is increased competition among manufacturers, largely thanks to vaccine-makers in emerging markets. The Serum Institute of India, for instance, says that its vaccines now immunise half the world's children. Another is GAVI itself. Before its creation, UNICEF offered short-term tenders for vaccines. By contrast, GAVI has insisted on higher volumes and long-term contracts to attract manufacturers and drive down prices. The alliance has had particular success with the hepatitis B vaccine. From 2000 to 2010 GAVI's support led to the immunisation of 267m children, according to the World Health Organisation (WHO).

Yet introducing other vaccines has proved harder. Take the pentavalent vaccine, which combines immunisation against five diseases, such as whooping cough and diphtheria, into one. Its price has remained high, because it was expensive to develop. "You can't rely on competition alone to bring down price," says Nina Schwalbe, GAVI's policy director.

Hence the effort to find new financing models. The Gates Foundation has experimented with "push" financing, to develop a cheap vaccine against meningitis A. Thanks to cash for production facilities and technology from America's Food and Drug Administration, the Serum Institute now makes the vaccine for around 50 cents a dose. GAVI is testing "pull" financing, promising cash to any firm that comes up with an effective pneumonia vaccine. It will pay Pfizer and GlaxoSmithKline (GSK) $3.50 a dose for this, with a guarantee of 30m doses each year for a decade. Donors will pitch in extra cash. Neither mechanism, however, is perfect. The price for the meningitis vaccine is now so low that other suppliers are reluctant to enter the market. And price and purchase guarantees may fail to encourage innovation.

Different vaccines will require different models. Some may be pushed by grants while still in the early stages of development. In other cases, high prices in the rich world can subsidise low ones in poor countries. For example, on June 6th Merck and GSK said they would offer developing countries a lower price for their vaccines to fend off diarrhoeal disease.

Other solutions may yet emerge. The WHO is studying the issue. Mr Duncan Learmouth of GSK suggests that donors invest in a portfolio of basic research to reduce the risk of betting on one technology. And innovative manufacturers from the developing world will continue to help, argues Mickey Chopra, UNICEF's chief of health. In March the WHO said that Chinese firms could begin submitting vaccines for approval.

Progress depends on the continued support of rich countries and on new activity from poor ones. Developing countries must play a greater role in setting clear priorities, argues Princeton University's Adel Mahmoud. The past decade saw a surge in innovation in the financing and development of vaccines. The next ten years will require even more.

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Nuclear endgame

The growing appeal of zero

Banning the bomb will be hard, but not impossible



RIDDING the world of nuclear weapons has long been a cause of the pacifist left. But in the past few years mainstream politicians, retired military leaders and academic strategists have begun to share the same goal, albeit with a very different idea of how to get there. That is partly thanks to a campaigning body called Global Zero, which is holding its third annual "summit" in London next week.

Global Zero got going in late 2006. Its two founders were Bruce Blair, a former Minuteman ballistic-missile launch-control officer and fellow of Brookings Institution who had set up the World Security Institute, a think-tank in Washington, DC, a few years earlier and Matt Brown, who had served as a youthful secretary of state for Rhode Island. They set about creating from scratch a global movement that would be very different from previous nuclear-disarmament efforts. But they might not have got far had it not been for a stroke of luck.

In January 2007 a seminal article appeared in the *Wall Street Journal*. The authors, who became known as the "four horsemen of the apocalypse", were Henry Kissinger, Bill Perry, George Shultz and Sam Nunn. All were veterans of America's cold-war security establishment with impeccable credentials as believers in nuclear deterrence. They now asserted that far from making the world safer, nuclear weapons had become a source of intolerable risk.



The risk of accidents, misjudgments or unauthorised launches, they argued, was growing more acute in a world of rivalries between relatively new nuclear states that lacked the security safeguards developed over many years by America and the Soviet Union. The emergence of pariah states, such as North Korea (possibly soon to be joined by Iran), armed with nuclear weapons was adding to the fear as was the declared ambition of terrorists to steal, buy or build a nuclear device. Only by a concerted effort to free the world of nuclear weapons could the terrifying trend be reversed.

Suddenly, Global Zero was able to recruit people who were a far cry from the old "ban the bomb" crowd. Taking his cue from the "four horsemen", Mr Blair emphasised that Global Zero had to advocate the kind of pragmatic actions that mainstream politicians and foreign-policy experts could endorse, while preserving, as a destination, a goal that seemed inspiring. "Zero" was a catchier slogan than the arcane incrementalism that had come to characterise old-time arms control. By putting the dangers of proliferation and nuclear-armed terrorism at the forefront of its concerns, Global Zero would puncture the public's post-cold-war complacency over nuclear weapons. Above all, Global Zero had to stand for a realistic process that was phased, multilateral, universal and backed by hard-nosed verification.

Global Zero announced itself with a meeting in December 2008 that drew together more than 100 international political, diplomatic, military and academic bigwigs. They agreed to set up a commission that would draw up a practical, step-by-step plan. They also sent a jointly signed letter to Barack Obama and his Russian counterpart, Dmitry Medvedev, who were about to meet for the first time, urging them to make a commitment to eliminate nuclear weapons and start making further big cuts in their own arsenals.

Mr Obama could not have been more helpful. In April 2009, speaking in Prague, he condemned "fatalism" about the spread of nuclear weapons. Going further than any president since Ronald Reagan, he said: "I state clearly and with conviction America's commitment to seek the peace and security of a world without nuclear weapons." A year later Mr Obama and Mr Medvedev signed the New START arms-control treaty, limiting the number of "operationally deployed" strategic warheads on each side to 1,550 after seven years.

With wind in its sails, Global Zero met in Paris in February 2010. Bolstered by the presence of another 100 or so famous supporters and messages of encouragement from Mr Obama, Mr Medvedev, the secretary-general of the United Nations, Ban Ki-moon, and the British prime minister, Gordon Brown, it released its four-phase plan for nuclear disarmament.

The first phase, intended to run from 2010-13, required America and Russia to negotiate a bilateral accord to reduce their total warheads to 1,000 each from their current inventories of, respectively, 8,500 and 11,000 (the two countries still account for 95% of the world's 20,500 nuclear warheads). Once ratified, every other nuclear-armed country would agree to freeze its own arsenal and pledge to join multilateral talks in the second phase (2014-18). This would see America and Russia each cut their arsenals to 500 warheads each and the other states reduce their inventories proportionately.

Critically, the second phase would depend on universal acceptance of a comprehensive verification and enforcement system accompanied by tighter controls on fissile materials produced by civil-nuclear programmes. The third phase (2019-23) would see the global zero accord legally agreed on and signed by all nuclear-capable states. The final phase (2024-30) would implement that treaty agreement.

Despite its rapid ascent, Global Zero, as it prepares for next week's summit, is facing problems that it may find hard to overcome. Its plan's timeline already looks optimistic. Mr Obama struggled even to get the New START ratified in the Senate. Last year's Non-Proliferation Treaty review conference made little progress on bringing pressure to bear on Iran to mend its ways. For all Mr Medvedev's rhetorical support, Russia's armed forces are intent on becoming more dependent on nuclear weapons, not less. If progress is to be made, it will have to be at a far slower pace than Global Zero is urging.

More fundamentally, not all Global Zero's signatories are convinced that zero is either achievable nor necessarily desirable. They support the journey, but are less sure about the final destination. And by focusing its campaign on the most dangerous proliferators and nuclear terrorism, it raises an awkward question: will minutely choreographed multilateralism make much difference to the hardest cases?

Global Zero's persuasive backers, such as Richard Burt, a retired American diplomat who negotiated the first START treaty, have plausible answers to every objection raised by sceptics. But if the gap between what can be achieved and the high ambition of Global Zero grows too wide, its claim to temper idealism with gritty pragmatism will be in jeopardy.

Correction: IBM and the Carnegie Corporation

In our June 11th comparison of IBM and the Carnegie Corporation we wrongly awarded a Nobel prize to BenoÃ®t Mandelbrot, the pioneer of fractal geometry. Sorry (though he certainly deserved one)

Indian mobile telecoms

Happy customers, no profits

India's mobile industry is magnificent but also a mess



IN A Vodafone shop in Mumbai earlier this year, you might have been forgiven for thinking that one of the great cliches about India wasn't true. The national cricket team was playing Pakistan; the biggest grudge match in any sport, anywhere. Yet the mobile-phone store was still bustling, with customers debating calling plans, not leg-before-wicket decisions.

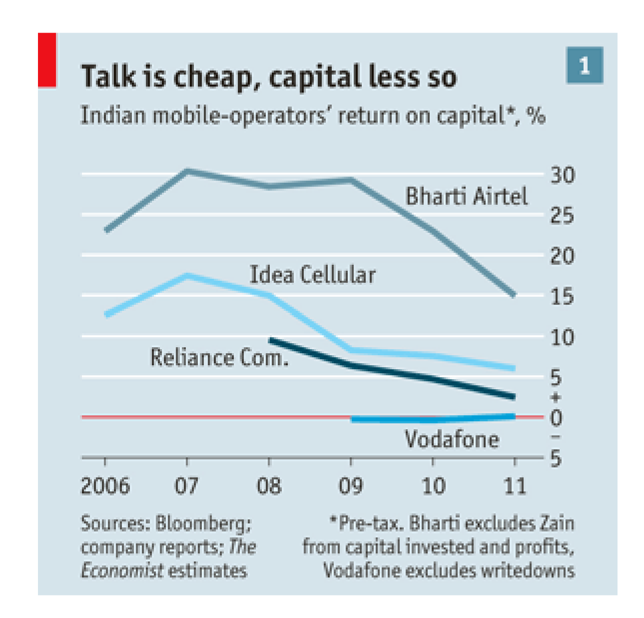
A visit the next day corrected the impression that Indians have lost interest in cricket. Without a match, the shop's tempo had roared back to its normal level: that of a siege, with a mob baying for itemised billing and BlackBerrys.

India has almost 600m active mobile-phone subscribers-about one for every two people, including babies. It also has among the lowest prices anywhere, and a home-grown, world-class operator, Bharti Airtel. India's mobile-phone industry inspires great hopes. Many see it as vital to the nation's development: a way of bypassing obstructive bureaucrats and bringing services to the masses, from mobile banking to accurate crop prices. Already a third of subscribers are in rural areas. Mobiles bring the whole world to villages in Uttar Pradesh.

Yet frustration grips many mobile executives. After new 2G licence awards by the government in 2008 (now the subject of a huge corruption probe), India has more than ten operators in most of its 22 geographical licence areas. Most countries have only three to six. Indian firms must typically make do with slugs of spectrum half the size of those issued to peers in less crowded countries. As a result, claim executives and investors, returns on capital stink like the drains in Kolkata.

Nice for nattering nabobs

Hyper-competition is good for natterers, of course: prices have fallen to a level the poor can afford. Firms have become leaner, too. Bharti outsources furiously. Most companies share radio towers and have learned how to compress traffic.



Yet the industry is right to fret about returns. Only one of the big four firms was close to recouping its cost of capital last year (see chart 1), as the price war hit margins and an expensive 3G spectrum auction in 2010 bloated balance-sheets. Vodafone has a rich parent company but the others are now uncomfortably indebted. Middle-sized operators, meanwhile, are thought to be bleeding badly. Of the small fry, only two disclose figures: Uninor, run by Telenor, a Norwegian firm; and Russian-backed Sistema. Together they lost almost $2 billion of cashflow last year. Both say they are in India for the long haul.

Weak returns are bearable if the market grows and the rules are clear. Long-term growth seems certain, but India's spectrum regime, once admired, is now an embarrassment. A roundtable with the new telecoms minister and mobile-phone executives in March revealed a fog of confusion about vital issues: the fees on existing spectrum, the terms on which old licences are renewed and corruptly awarded ones relinquished (if at all), new spectrum grants and the rules on mergers and acquisitions. It is also unclear whether non-voice 4G licences, originally intended for data only, some of which are in the hands of Mukesh Ambani, India's richest man, will have their terms tweaked to allow voice services, creating even more new entrants into the mobile market.

The way India divvies up spectrum is unfair and erratic, which deters investment. It is also wasteful. About 30% of India's granted spectrum used for GSM (the main flavour of 2G) is in the hands of operators with a collective market share (by revenue) of about 3%, reckons Deepti Chaturvedi of CLSA, a broker. With spectrum tight, big operators say they must build denser networks than they might otherwise. One boss thinks the extra cost for the industry is billions of dollars a year.

The auction of spectrum for 3G services in 2010 was clean and cleverly designed. However, it produced a stupid outcome. Four or five slots were sold in each geographic area-far fewer than the number of existing players. Only about 60% of existing 2G customers will be able to get 3G from their existing provider. If they want a fast data connection, they will have to dump their current operator or hope it can piggyback off a rival's network. In short, India has encouraged lots of firms to enter the voice market and then ensured that many of them cannot offer the latest technology. At the same time, it makes it hard for the losers to sell up and get out.



If the market is too fragmented (see chart 2), consolidation is the only plausible cure. From Brazil to America, places with mosaics of technologies, operators and regional licences have cleaned themselves up. In India this process may not correct past injustices, but by allowing unviable firms and their spectrum to be acquired, a scarce resource could be allocated more efficiently and customers could be saved the annoyance of having their carrier go bust. Most executives expect a cull. After the scandal erupted last year, says one boss, banks cut off credit to the industry, making life hardest for the small firms that have yet to break even. The big operators have stepped back from price cuts, allowing industry revenues, which had stalled despite the boom in customers, to grow again.

But the industry cannot rationalise by itself: the state controls the supply of licences and spectrum. Will it enact sensible changes? Some worry that the 2G scandal could tar more executives and politicians, paralysing reform. That could damage the Indian economy. Still, the noises from Delhi are mildly encouraging. As the telecoms minister put it recently, using another cliche that happens to be true, "we cannot kill the goose that laid the golden egg."

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Expert networks

Linking expert mouths with eager ears

Expert networks are the matchmakers for the information age



THE inside information she gave him was "absolutely perfect", a former hedge-fund executive testified on June 6th. Winifred Jiau, a consultant for Primary Global Research, an "expert network" firm, is on trial for peddling confidential information about companies to traders.

Ms Jiau's industry is also undergoing its own trial, of sorts. Expert networks are matchmakers that link clients with experts. A hedge fund that trades pharmaceutical stocks, for example, might use an expert network to find a doctor who can explain how a new cancer drug works. The network would set up a phone call and pay the doctor handsomely.

Such networks have recently caught the eye of American regulators, who fret that investors may be using them to ferret out illegal inside information. Since November more than a dozen people with links to expert networks have been arrested for insider trading.

The hullabaloo has spooked the industry. Some firms, such as Primary Global, may not survive. Others, such as Gerson Lehrman Group (GLG), which has not been accused of any wrongdoing, are looking for a way to distinguish themselves from tarnished rivals and win back business from jittery clients.

GLG is by far the largest network. In 2008 it generated two-thirds of the industry's global sales of $433m, according to Integrity Research Associates, a consultancy. As clients switch from smaller networks to ones with stricter safeguards, GLG could grab an even bigger share of the pie.

But the business will be less lucrative than before. GLG's clients spend on average $170,000 a year to subscribe to its database of 300,000 experts. This yields rich profits. But some hedge funds are suspending their use of such networks, for fear of falling foul of the law. Others are making their traders jump through legal hoops before allowing them to speak to an expert. A few are abandoning networks altogether, and finding their own experts. "It would be odd to think that doing research on your own or finding someone online and sending them a cheque is better than the framework we provide," grumbles Alexander Saint-Amand, GLG's boss.

GLG has invested in technology to help clients search its database of experts. Compliance chiefs can set filters and block some experts if they worry there may be a conflict of interest. GLG keeps a record of who talks to whom, about what, down to the minute, which they could easily hand over to prosecutors if asked. "If you want to sell inside information, this is a terrible place to do it," says Mr Saint-Amand.

But there is still scope for things to go awry. Professionals can sign up for GLG without a background check. They have to sign an agreement not to share any material, non-public information, but GLG does not listen in to the calls to enforce this. Clients who are determined to do wrong probably can. For example, they can meet experts through a network and then set up a separate "consulting" relationship, which enables them to buy tips without GLG ever knowing.

Among the millions of interactions that GLG sets up, "there are probably a couple of bad apples," admits one former GLG executive. "But how many people have gotten raped and killed after using Craigslist?" he asks, referring to a popular website for people seeking romance or a second-hand lawnmower. "You can't go blaming Craigslist for that," he fumes. But people do.

GLG faces other challenges, too. Expert networks became popular a decade ago, when people could not find obscure information on their own (and equity research from banks was considered hopelessly biased). Now, the internet allows anyone to find more or less any research. LinkedIn, a social-networking site for professionals, allows users to find specialists easily. And Quora, a website where people discuss serious topics, helps people find answers to questions without having to hire anyone by the hour.

GLG is trying to adapt. It recently launched G+, a social network and discussion forum, which aims to raise the profile of its experts and attract new business by prompting discussion on various subjects. But right now G+ reads like a professional version of Twitter, where people chirp their views on cloud computing, plastic packaging, medical devices and so on.

GLG's investors, which include Silver Lake, a big private-equity firm, want an exit soon, and are probably looking lustfully at the fortune LinkedIn's initial public offering recently generated. But going public may be hard unless GLG can rebrand itself.

New markets may bring greater rewards. In Asia the demand for expert networks is growing fast. Chinese traders want experts to explain American companies to them. At the same time, local expert networks are also springing up. These are typically cheaper, and probably less strict about policing insider gossip. That could give them an edge.

GLG wants to sell its services to a wider range of clients. Currently 40% of its sales come from hedge funds, but the company wants to woo all kinds of firms, particularly in high-tech fields such as the life sciences. Such firms have big budgets and a hunger for expertise. Wyatt Nordstrom, who runs Maven Research, another expert network, thinks that in the future most expert-network firms will shift towards "micro-consulting" (doing small-scale consulting projects). Others predict that expert networks may even compete with the big management-consulting firms.

These two industries already have more in common than meets the eye. Management consulting, too, has recently come under fire, after the ex-boss of McKinsey, Rajat Gupta, was charged with tipping off a hedge-fund manager. Experts seem to need more expertise in discretion.

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African airlines

Looking east

Flying in Africa is getting easier



Your baggage-handler awaits

RUNNING Air Zimbabwe is not easy. When President Robert Mugabe wants to go somewhere, he simply kicks the passengers off one of your jets and takes it. This is not good for customer relations, or profits. Last month the airline was suspended from the International Air Transport Association (IATA) booking system for non-payment of debts. But in the rest of Africa, the skies are busier than ever before and the airlines more efficient. The best African carriers can compete with the old colonial giants, British Airways and Air France. New routes open monthly.

Several companies stand out for being profitable, international and growing. Of these the largest are EgyptAir, South African Airways (SAA) and Royal Air Maroc (RAM). All three operate from corners of the continent: RAM in the north-west, EgyptAir in the north-east and SAA in the south. But the future may lie with the slightly smaller but fast-growing airlines in the middle. Kenya Airways ("The Pride of Africa") flies to 42 non-domestic African cities, up from 16 in 2000. Ethiopian Airlines ("The New Spirit of Africa") serves 35 African cities outside Ethiopia, up from 22.

Ethiopian is state-owned and some analysts doubt that it is as profitable as it claims. Last year the airline says it earned a $118m profit on revenue of $1.3 billion. Its passenger numbers, which no one doubts, have grown by 20% a year for the past decade. Its bosses predict that its revenues and passenger numbers will increase sixfold by 2025. It has ordered three dozen new Boeing and Airbus airliners.

Kenya Airways is 23%-owned by the Kenyan government; KLM, a Dutch airline, has 26%. Its strategy is to spread its wings throughout Africa, with a new fleet of Brazilian Embraer jets. This month it announced a 74% increase in after-tax profits: $45m on revenue of $1.1 billion. It was a tough year, the airline says, thanks to political unrest in Cote d'Ivoire and elsewhere. Most of the profit came from successfully hedging fuel costs. The firm expects to do better this year. A share offering due in the autumn should fund further expansion.

A flight from east Africa to west Africa typically used to require a tedious detour via Paris or London. Now the continent increasingly faces east. West African traders are rushing to and from China. That helps Ethiopian and Kenya Airways, since their hubs (Addis Ababa and Nairobi) make convenient stopping-points en route to Asia.

Not everyone thinks there is enough growth in Africa to go around. Ethiopian will join EgyptAir and SAA later this year as a member of the Star Alliance, a global tie-up. The three airlines may club together to create a new regional airline in central Africa, which is presently underserved.

Plenty of challenges remain. Safety has improved a lot, but not enough. Too many planes are old and tired. The EU has banned some smaller African airlines from European airspace.

IATA says African airports are among the costliest in the world, and offer shoddy service. Nairobi has iffy security and few comforts. A lack of competition on many routes has led to inflated prices. Flying from Addis to Nairobi is nearly as costly as flying to Europe. Between Uganda's Entebbe airport and Nairobi, by contrast, competition is fiercer and prices reasonable. Fliers hope that spunky new budget airlines, such as Arik Air in Nigeria, Fly540 in Kenya and 1Time in South Africa, will keep Africa's elephants on their toes.

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Executive compensation

Pay up

Overpaid bosses are back

SINCE the financial crisis American bosses have made sacrifices. The average pay for the chief executive of a public company fell from $15.1m in 2007 to $13.5m in 2008. It fell again in 2009, to $10.1m. But the days of eating at Taco Bell and wearing second-hand clothes are over. According to GovernanceMetrics International (GMI), a research firm, bosses' pay rose sharply in 2010. The average among firms that have already reported was nearly $12m.

The top earners so far are Bob Iger of Walt Disney, with total compensation of $54.9m, followed by George Paz of Express Scripts, a pharmacy-benefits management firm, and Lew Frankfort of Coach, a bagmaker. Ray Irani of Occidental Petroleum, who usually does well on these lists, placed a disappointing fourth with a paltry $47.1m. The highest earners benefited from a resurgence of cash bonuses, which had previously declined; $29.3m of Mr Irani's pay was in cash. The trend towards paying bosses in restricted stock (eg, shares that cannot be sold for several years) continued, and probably helped to align bosses' interests with shareholders'.

But share options continued to raise eyebrows. Some 34% of bosses exercised them in 2010, up from 23% in 2009. Frits van Paasschen of Starwood Hotels and Resorts Worldwide cashed in a bundle he was given when the firm's shares were in a ditch in February 2009, pushing his total pay up from $2.9m in 2009 to $17.4m in 2010. He was granted roughly 1m shares at an exercise price of $11.39. By the end of 2010 they were worth $60. "There are plenty more egregious examples to come," says Paul Hodgson of GMI.

Shareholders have been taking advantage of new "say on pay" rules to growl their displeasure. They have voted to reject executive pay deals at 35 firms, including Hewlett-Packard, a big IT firm, and Beazer Homes, a building firm that subsequently dumped its boss. This may be more "no" votes in a single year than have been cast in the rest of the world since Britain first introduced "say on pay" in 2002. Unhappiness over pay extends far beyond the activist shareholders and union pension funds that bosses like to blame.

Shareholders at most American firms have also been offered a chance to vote this year on how often they would like a say on pay. Most boards recommended a vote once every three years (the minimum allowed under the Dodd-Frank act, a financial reform adopted in 2010). But in almost all firms without a controlling shareholder, most votes were cast for having a say on pay every year.

This has not stopped bosses from lobbying for weaker rules. One Dodd-Frank rule requires firms to publish the ratio of the boss's pay to that of the median worker. Congress is under pressure to scrap this rule, which was passed when the Democrats were in charge. The Securities and Exchange Commission (SEC), which must draft the small print, has been swamped with objections. Some firms say the rule would be absurdly costly to obey, especially if it includes workers abroad, part-timers or contractors. They may have a point, though there is speculation that the SEC will apply it only to employees in America.

Bosses' chief worry may be that publishing such numbers will make them even more unpopular than they are. The ratio of top to median pay may, as bosses insist, be irrelevant to sound management. If so, shareholders will no doubt ignore it. John Pierpont Morgan, a robber baron, reportedly believed that a boss should earn no more than 20 times the wage of his lowliest (not median) underling. Today the ratio is often 20 times that.

Fine-wine fraud

Chateau Lafake

The fine-wine boom is attracting forgers



Taste is a delicate thing

WINE buffs are like art collectors. Few can tell the difference between a well-made fake and the real thing. Yet whereas counterfeit art has been around for centuries, wine forgery is relatively new. It started in the late 1970s when the prices of the best wines-especially those from Bordeaux-shot up. Today, with demand from China fuelling a remarkable boom, counterfeiting is rife. By some estimates 5% of fine wines sold at auction or on the secondary market are not what they claim to be on the label.

The simplest technique is to slap the label of a 1982 Chateau Lafite (one of the most prized recent vintages) onto a bottle of 1975 Lafite (a less divine year). Another trick is to bribe the sommelier of a fancy restaurant to pass on empty bottles that once held expensive wine, along with the corks. These can be refilled with cheaper wine, recorked and resealed. Empty Lafite and Latour bottles are sold on eBay for several hundred euros.

The margins are fruity. A great wine may cost hundreds of times more than a merely excellent one. Small wonder that oenophiles are growing more vigilant. Bill Koch, an energy tycoon and avid wine collector, currently has five lawsuits pending against merchants, auctioneers and other collectors. His grape-related gripes began in 2006, when he filed a complaint against a German wine dealer who sold bottles of Lafite he claimed had once belonged to Thomas Jefferson. The case is unresolved.

"There is a code of silence in the industry," says Mr Koch, who owns 43,000 bottles of wine and estimates that he has spent $4m-5m on fakes. Some collectors are too proud to admit that they have been duped. Others fear sullying a vintage's reputation and thereby reducing the value of their own collections. So instead of speaking out, "they dump their fakes into auctions or sell them to other private collectors," says Mr Koch.

Wine merchants and auction houses say they are doing everything they can to filter out the fakes. Simon Berry, the chairman of Berry Brothers & Rudd, a British wine merchant, says his firm never buys wines from before 2000 unless they come from its own cellars. (Berry Brothers stores nearly 4m bottles on behalf of its customers.) Christie's, an auctioneer, says all the wines it auctions are inspected three times by different people, using detailed checklists for condition and authenticity.

Fear of fakery has not stopped the boom. But the wines that win the best prices at auction are those whose provenance is certain. In May, Christie's sold an imperiale (six-litre bottle) of 1961 Latour for $216,000 in Hong Kong. It came directly from the cellars of Chateau Latour.

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Frugal health care in America

Quality, not quantity

Private firms are taking baby steps to curb soaring health costs

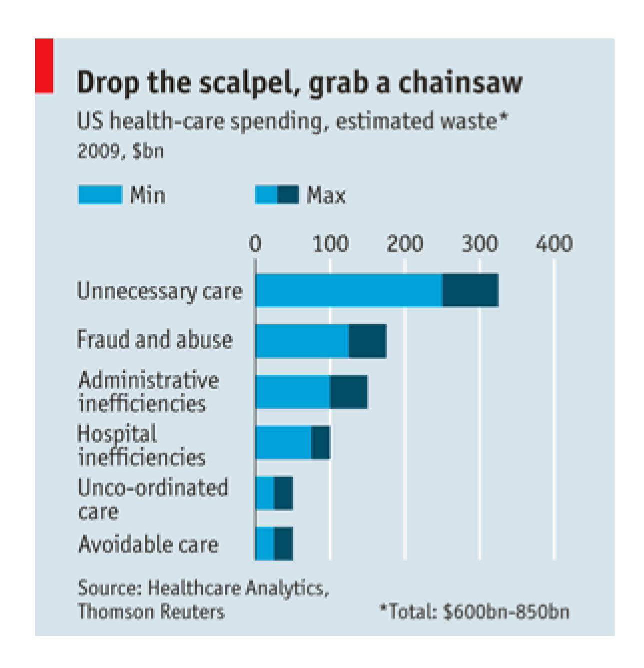


Relax, your grandchildren will pay

ABOVE a valley in Pennsylvania sits an old hospital that gives an optimistic hint about the future of American health care. Geisinger Health Systems was founded in 1915 but is as adaptable and creative as a start-up. It has invented new ways to offer services: it provides heart surgery, for example, at a fixed price and with a warranty. (If there are complications within 90 days, you pay nothing to fix them.)

Geisinger is changing the way it delivers primary care, co-ordinating teams of doctors and nurses to keep more people healthy for less money. Barack Obama sometimes praises the organisation in speeches. His health reform includes a

programme to promote a model much like it. Alas, Geisinger's chief executive, Glenn Steele, is one of many hospital bosses who think the new programme will not work.



America spends far more on health care than other countries, such as Britain (see article). The waste is staggering (see chart). The main problem is loopy incentives. Under "fee-for-service" arrangements, the more tests, scans and pokes with gloved hands a hospital or clinic provides, the more it is paid. Mr Obama's health reform included only a few small nudges to change this.

Topmost among them is a plan for Medicare to reward "accountable care organisations" (ACOs) for keeping people healthy, rather than lavishing treatment on them. The plan seems sensible enough. But it has provoked uproar in every corner of the health industry. This month the Centres for Medicare and Medicaid Services (CMS), the body that oversees government health schemes for the old and the poor, was barraged with irate letters about it.

An entrenched system is hard to change. Hospitals currently have little incentive to keep patients healthy. On the contrary, fitter patients would mean lower volumes and smaller margins, says Michael Nugent of Navigant Consulting, an expert on ACOs. Nevertheless, the current system is clearly unsustainable.

Wonks have buzzed about ACOs for years. In 2005 CMS began a pilot with ten health systems, including Geisinger, to reward them for improving the quality of care while lowering costs. America is dotted with examples of reform. Utah's Intermountain Healthcare is a hospital system with its own health plan. Clever use of data has helped to streamline care: a new protocol for delivering babies has reduced the number of unplanned caesarean sections and saved about $50m a year.

Insurers are experimenting with reform as well. Aetna, Humana and Wellpoint are testing new payment models. In Massachusetts, Blue Cross Blue Shield has created an "alternative quality contract" that gives hospitals a fixed budget for a patient, with additional rewards for improving the quality of care. In the programme's first year hospitals cut the number of unnecessary emergency-room visits by 22%.

"The train is moving in the right direction," says Mark McClellan, a former head of CMS who has championed ACOs. Real progress, however, requires change in the public sector. Medicare, the public health programme for the old, provides a whopping 35% of American hospitals' revenue.

CMS's proposed rule for ACOs would allow doctors, hospitals and other health providers to form networks to co-ordinate Medicare patients' care. CMS would reward ACOs that save money, relative to a predetermined benchmark, while meeting certain standards of quality.

Alas, the regulations are a mess. "The ACO policy is an example of why the government is not always a great change agent," sighs Chip Kahn, president of the Federation of American Hospitals. The insurance lobby frets that the rules will prompt hospitals to merge, reducing competition and driving up prices. The American Hospital Association says that the

rewards for saving money are too low and the risks too high. The rules include 65 quality measures, more than twice the number in CMS's earlier, smaller pilot. "I was very disappointed with their over-specificity," says Geisinger's Dr Steele. Advocates for ACOs, such as Dr McClellan, hope that the final rules will be different.

CMS is likely to make at least some changes to the programme. "I'm delighted to have the feedback," says Donald Berwick, CMS's boss. Last month Dr Berwick unveiled a few new enticements for ACOs, such as more flexible rules for experienced hospitals such as Intermountain. But it is unlikely that the ACO programme will be in place by January, as originally planned.

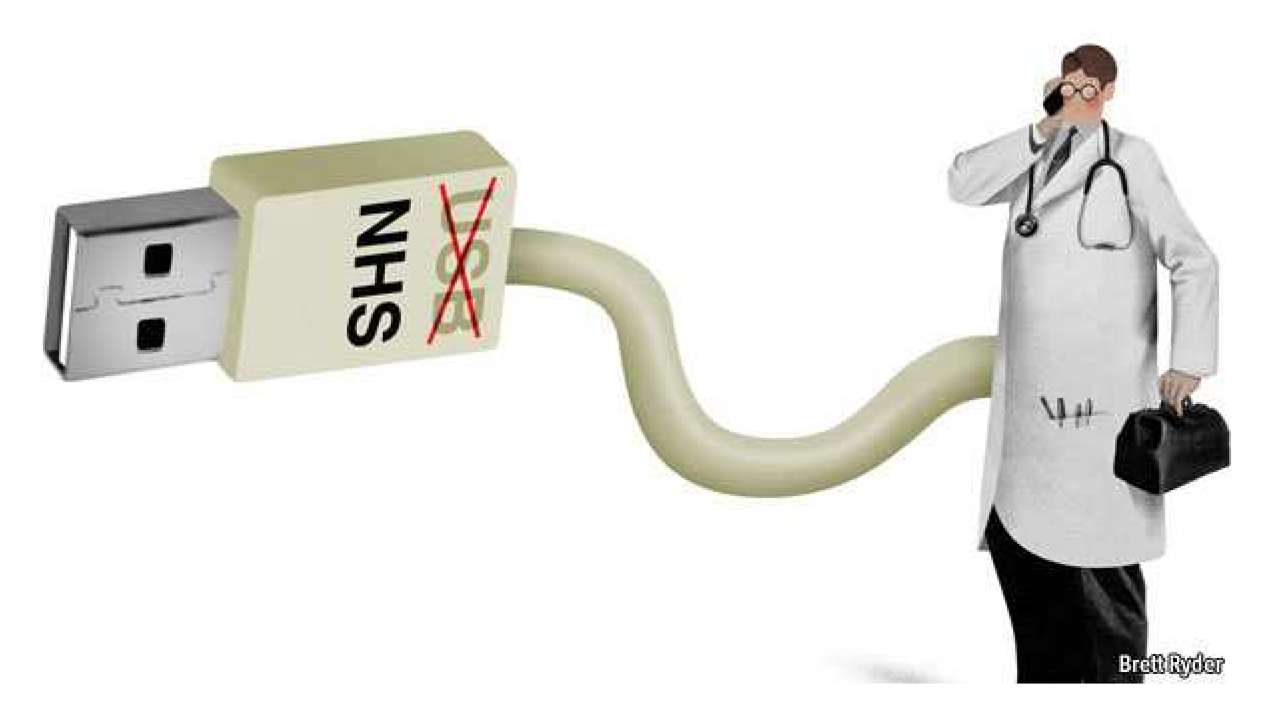
Dr Berwick points to other efforts to spur reform, including a pilot scheme to improve primary care and new penalties for hospitals where too many patients acquire new diseases or are readmitted because their treatment failed. The trick will be aligning these programmes with one another-and with innovations in the private sector. Health-care reform is like brain surgery, only harder.

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Schumpeter

Saving Britain's health service

The NHS needs to learn from innovations in the rest of the world



NO SPECTACLE is "so ridiculous as the British public in one of its periodical fits of morality", harrumphed Thomas Macaulay, a Victorian historian. Today there is no spectacle so ridiculous as the British public in one of its periodic fits of panic about the National Health Service (NHS). Every decade or so the government tries to reform the NHS-and every decade or so the NHS masses its forces to work the public into a frenzy.

Doctors threaten to strike against "privatisation". Bishops bleat that anxiety stalks the land. The BBC waves blood-stained sheets. And the government eventually backs down. Thus it was with Margaret Thatcher and (more mutedly) with Tony Blair. And thus it is with David Cameron, who came to office promising to reinvent the welfare state but now promises that the NHS of the future "will be much like what we have today".

This is a mind-boggling statement. The internet and the mobile phone are revolutionising social life. New drugs and surgical techniques are revolutionising treatment and prolonging life. Entrepreneurs and innovators are demonstrating that you can use new technology and clever business models to deliver better health care for less money. As Britain ages and its medical bills soar, the NHS must experiment or die.

The NHS was built on the idea that patients are passive recipients of medical wisdom, most of it delivered face-to-face. This is beginning to change: doctors now advise patients to take exercise and eat their vegetables. But it has a long way to go. The private sector has revolutionised productivity by getting customers to do more things for themselves. Rather than waiting for a butcher or baker to serve us, many people now choose their own groceries and scan them themselves at the checkout. This model is now reaching health, too.

Several American organisations encourage people to monitor and manage their own health. The Centre for Connected Health, which works with Harvard Medical School's hospitals, urges patients to wear tiny sensors that generate data about their well-being. This not only allows doctors to call them if something is amiss; computerised "lifestyle coaches" also send them e-mails telling them to modify their behaviour if their indicators grow worse. Kaiser Permanente, a health-care firm, allocates diabetes sufferers a diabetes specialist and then encourages them to get their blood tested at a local pharmacy. The results are analysed and the specialists call their patients if a red flag pops up. The Montefiore Medical Centre in New York has reduced hospital admissions for older patients by more than 30% by using remote monitors which allow doctors to manage them at a distance.

Much of the pressure for a more collaborative approach to health care is coming from the bottom up-from patients themselves and from what David Cameron calls the "big society". Voluntary organisations such as Alcoholics Anonymous have a better record than the NHS at teaching people to look after themselves. People who suffer from rare or debilitating diseases form online groups such as PatientsLikeMe and WeAreUs to swap advice and support each other. There is a growing community of "quantified selfers" who monitor their own bodily functions and hold meetings to discuss their results. This combination of monitoring and self-help holds the key to cost control as well as improved health: about 75% of NHS spending is devoted to 17.5m people who suffer from long-term problems.

The NHS was also built on the assumption that general hospitals are the flagships of the system. (Mr Cameron promises to defend them.) But across the developing world entrepreneurs are demonstrating that "focused factories", to use the jargon, can use economies of scale and intense specialisation to improve productivity. The Narayana Hrudayalaya Hospital in Bangalore has reduced the cost of heart surgery to $2,000 (60% cheaper than most Indian hospitals). Its 42 surgeons perform an impressive 3,000 operations a year. They become virtuosos in their sub-specialisms. LifeSpring Hospitals, an Indian chain, has used standardised procedures, borrowed from manufacturing, to reduce the cost of delivering a baby to $40, a fifth of the cost at comparable local hospitals. Every year the Aravind Eye Hospital performs 70% of the number of eye operations performed by the entire NHS for just 1% of the cost.

Entrepreneurs are using new business models to revolutionise routine care as well. Franchising, for example, allows entrepreneurs to piggy-back on other people's infrastructure (particularly retailers) while at the same time fitting in with the rhythms of everyday life. VisionSpring, a social enterprise, provides entrepreneurs in 13 countries with a "business in a bag": all the equipment they need to diagnose and correct long-sightedness. PDA, a Thai social enterprise, distributes condoms and contraceptive advice through a network of restaurants. America's MinuteClinics, which operate in stores, offer health screening and treatment for common ailments under the motto "You're sick, we're quick".

Wanted: a medical Martin Luther

The struggle for NHS reform has not been completely lost. On June 8th Reform, a think-tank, staged a conference on "disruptive innovation" in health care. NHS veterans repeated the old saw that the NHS is the closest thing Britain has to a national religion. But they also listened excitedly as Indians and Mexicans told stories of innovations back home. And they produced numerous examples of innovations of their own. NHS Direct, a hotline, dishes out medical advice by phone and the internet to 8m people. Boots and Specsavers, two high-street stores, apply something like the franchise model to the distribution of spectacles. Pointing out flaws in a nation's religion will seldom win you friends. But sometimes it takes a Reformation to save a church.

Economist.com/blogs/schumpeter

American economic policy

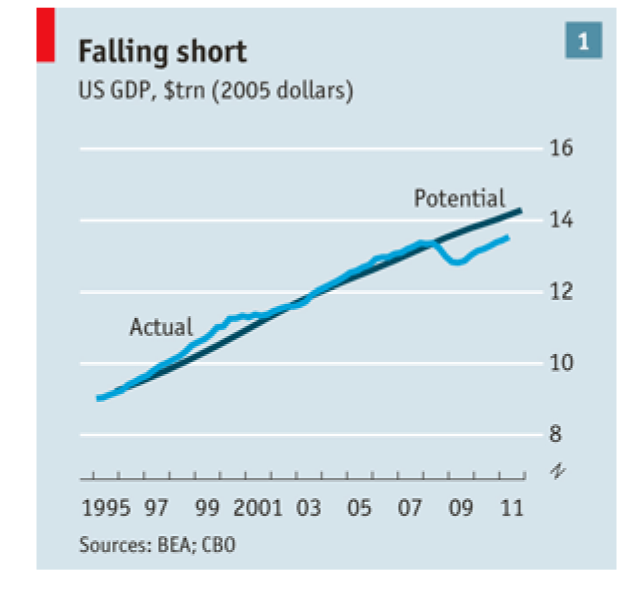
Running out of road

Although America's recovery from recession is disappointingly slow, policymakers doubt the merits of another monetary or budgetary push



THIS month America will reach two economic milestones. The Federal Reserve's "quantitative easing", or QE-loosening monetary policy by buying bonds with newly created money-will draw to a close. And the recovery QE was designed to spur will reach its second anniversary.

Yet no one will be celebrating at next week's meeting of the Fed, where officials are almost certain to reiterate that the $600 billion programme of bond purchases will end this month. For all the monetary and fiscal stimulus applied to the economy, the recovery has been a disappointment. Though the chance of renewed recession is slim, in a dreary rerun of last year a promising acceleration in hiring and spending is fizzling.



Since recession ended in June 2009, GDP growth has averaged 2.8%, roughly its long-term trend. After so deep a slump, the pace is usually much faster. The gap between actual and potential GDP has been stuck at around 5% since late 2009 (see chart 1). From some angles, the picture is even worse. Measured by totting up income rather than spending, the economy is no bigger than in 2006. The proportion of working-age people with jobs is lower than in the trough of the recession.

This week Larry Summers, who until December was Barack Obama's chief economic adviser, gave warning that America was halfway through a lost decade similar to Japan's in the 1990s. Back then American policymakers were keen to lecture the Japanese on how to escape their predicament. Tim Geithner, then a Treasury official and now the Treasury secretary, would press his Japanese counterparts for more fiscal stimulus. Ben Bernanke, then an academic and now the Fed's chairman, called the Bank of Japan's failure to cure deflation a case of "self-induced paralysis".

Japanese lessons

Indeed, America's initial response to its own crisis and recession drew on the lessons from Japan. About $1.2 trillion in fiscal stimulus has been injected since Mr Obama took office. The Fed cut interest rates to nearly zero and then, in two rounds of QE, bought $2.3 trillion of government and mortgage-backed bonds.

But lately American leaders have shown signs of the inertia for which they used to berate Japan. Mr Obama has suggested extending a cut in employees' Social Security tax, enacted in December, but most of his, and Republicans', attention is now given to cutting the budget deficit. Fed officials who enthusiastically backed QE have little taste for more.

Since the Depression American governments have considered it their duty to use macroeconomic policy to reduce unemployment. That duty was codified in the Employment Act of 1946. Henceforth, says Brad DeLong, an economic historian at the University of California, Berkeley, "an administration that failed to achieve acceptable macroeconomic performance was a failed administration."

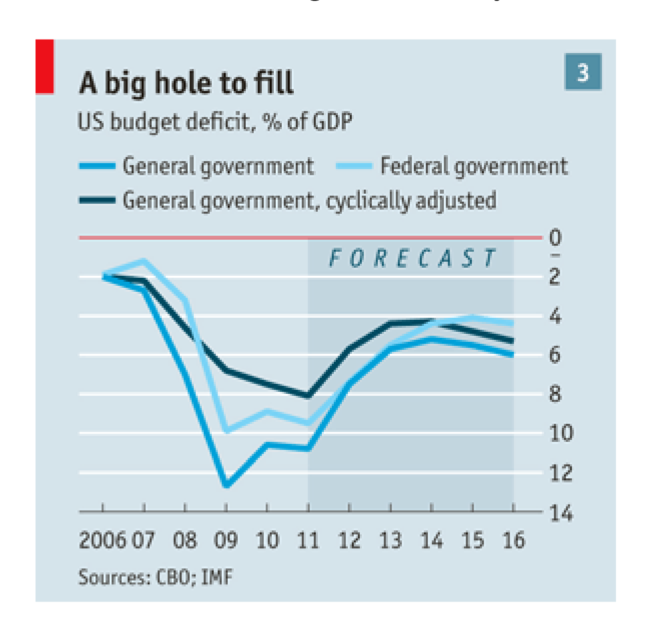
Later policymakers learned they could not pursue higher employment if it meant fuelling inflation with slack monetary policy or crowding out private investment with public borrowing. Neither is happening today. The lack of appetite for further stimulus has more to do with a belief, particularly among Republicans, that intervention on the present scale is both ineffective and dangerous. John Boehner, the speaker of the House of Representatives, says: "Many of our problems can be traced to a misguided belief...that [the economy] can be controlled or micromanaged." Mitt Romney, the front-runner for the party's presidential nomination, said in a candidates' debate on June 13th that Mr Obama "didn't create the recession, but he made it worse and longer."

Those views have won academic backing from John Taylor, an economist at Stanford University. Mr Taylor traces the economy's ailments to the abandonment of predictable, rules-based fiscal and monetary policies. The bail-outs and stimulus of George Bush junior and Mr Obama, and the Fed's emergency lending and QE, he argues, sowed paralysing uncertainty. He believes that deep spending cuts would reverse this effect and thus generate private spending and growth.



For this there is only tenuous empirical support when interest rates are close to zero. A stronger case against further fiscal easing comes from Carmen Reinhart of the Peterson Institute. In the 15 crises she studied with her husband, Vincent Reinhart of the American Enterprise Institute, policy responses varied widely but the result did not: prolonged, subpar growth. The reason was that the crises had a common cause: excessive debt that could be corrected only by a long period of deleveraging. American households have made a start on this, but their debts are still far above the pre-2000 trend (see chart 2). Mrs Reinhart thinks more fiscal stimulus merely postpones the necessary adjustment, because it replaces private debt with even greater public borrowing.

The euro zone's sovereign-debt crisis has reminded governments everywhere that heavy public debt risks more than just crowding out private investment. It can, in the extreme, bring on insolvency.



The chances of a Greek-style crisis in America are low, given the dollar's reserve-currency status, but not zero. On today's trends America's debt is rising unsustainably. By 2016 its overall government deficit will be 6% of GDP, the IMF estimates, well above the comfort level for debt stability. Almost none of that deficit will be the product of the economic cycle (see chart 3).

The merits of more fiscal stimulus have been fiercely debated inside the Obama administration. Christina Romer, who was chairman of Mr Obama's Council of Economic Advisers, argues that near-term fiscal stimulus, by boosting employment and income, lessens the pressure on households to pay down debt whereas premature austerity could worsen the cycle of weaker growth and deleveraging.

Since Mrs Romer and Mr Summers left the White House last year, however, the opposite view has gained. In a recent meeting an official repeatedly told reporters that the administration's focus on deficit reduction was necessary to maintain

confidence. This may be as much a concession to political reality as a statement of economic preference. The White House is negotiating deficit cuts of between $1 trillion and $4 trillion in the next 10-12 years to win Republicans' agreement on raising the limit on federal debt. Without an increase, the Treasury would be unable to pay some of its bills come August 2nd.

Mr Obama's advisers would still like to couple short-term fiscal stimulus with longer-term tightening. Recently officials have suggested extending the payroll tax cut agreed on last December, which is due to expire at the end of 2011, for a year. Mr Summers has called for a cut in employers' payroll tax, too. Administration officials think either could be part of a package that reduces the deficit over ten years and raises the debt ceiling. But it is unclear whether Republicans will go along.

The bounds of bond-buying

When the Fed meets next week, it is almost certain to keep the quantity of its bond purchases unchanged. It will replace maturing holdings, but it will not signal a third round of QE. This is largely because circumstances are less dire than when the second round (QE2) began last autumn. At the time private job growth had slowed markedly and core inflation (ie, excluding the prices of food and energy) had fallen to less than 1%, well below the Fed's unofficial target of 2%. QE2 (or the anticipation of it) had the desired effect: it initially nudged down Treasury yields, squelched fears of deflation, encouraged investors into risky assets, such as stocks, and pushed down the dollar.

Fed officials think that the economy's weakness now reflects interruptions to Japanese supply chains and higher petrol prices, both of which are fading. Growth, they reckon, should rebound to above 3% (at an annual rate) in the second half of the year. Core inflation rose to 1.5% in May. If inflation falls back and the economy continues to stagnate, the Fed may consider easing again. It could do this in various ways, such as setting an explicit target for long-term interest rates, focusing future bond-buying on particular maturities or restarting purchases of mortgage-backed bonds.

But for further QE the bar is set high. The benefit would be limited and the costs higher than before. It would complicate the Fed's job of eventually shrinking its balance-sheet. Some Fed officials worry that its holdings of bonds could lose value when rates rise (though that would not affect its operations).

The political backlash would be fierce. QE2 drew heavy fire from abroad, from Republicans on Capitol Hill and from within the Fed. Some Republican senators cited QE2 as a reason for blocking Mr Obama's nomination of Peter Diamond, a Nobel prize-winning economist, to the Fed. (An uncited reason was revenge for Democrats' blocking of Mr Bush's nominees.)

Fed officials can ignore politics as long as it does not interfere with the efficacy of monetary policy. However, they worry that the backlash against QE2 may have played a part, albeit a small one, in the rise of commodity prices-by weakening the dollar and funnelling hot money into alternative assets and emerging markets whose central banks have been slow to tighten their own monetary policies.

With both fiscal and monetary policy near their limits, Democrats and Republicans alike are searching for other, preferably cheap, ways to spur growth. They agree that reducing regulation would help. Yet as far as getting money and credit flowing through the economy are concerned, regulation is heading in the opposite direction. Under last year's Dodd-Frank act, banks face new rules designed to prevent abusive and risky lending. A Fed official has suggested that the biggest, riskiest banks might have to hold capital of up to 14% of assets, far above the 7% norm agreed to in Basel 3, a new international accord.

Jamie Dimon, the boss of JPMorgan Chase, confronted Mr Bernanke at a conference on June 7th, saying that the crisis had already shut down the most dangerous parts of the financial system, from unscrupulous mortgage brokers to off-balance-sheet investment vehicles. "Now we're told there are going to be even higher capital requirements...and we know there are 300 rules coming. Has anyone bothered to study the cumulative effect of all these things?" No, Mr Bernanke admitted. "It's just too complicated." Besides, he pointed out, the priority was prevention of another crisis.

With fiscal and monetary options being closed off, America's policymakers may have limited ways forward. But remembering where this journey started, they are in no mood to retrace their steps.

Wall Street partnerships

Brown-blooded holdouts

Partnerships have their advantages, but nostalgia for the era when they dominated finance is pointless



IT IS a modern glass and steel structure in downtown Manhattan, but the biggest tenant of 140 Broadway could almost have come from the pages of a Charles Dickens novel. The eight top partners of Brown Brothers Harriman (BBH) share an office, the Partners' Room, sitting at two rows of antique desks, overlooked by a painting of the firm's stern-faced founders. "As befits a general partnership, this lack of individual offices promotes sharing of ideas and ensures there can be no secrets," says Digger Donahue. The firm's unstuffy managing partner revels in its history. Founded in the early 19th century, it arranged America's first initial public offering and, as owner of a fleet of ships, once held a monopoly on mail delivery to Britain.

BBH is clearly not your typical 21st-century Wall Street firm-and not only because it is hard to imagine Jamie Dimon or Vikram Pandit agreeing to bunk up with half a dozen lieutenants. Private partnerships have been in retreat since 1970 when the New York Stock Exchange allowed its members to go public. The last of the big firms to make the switch was Goldman Sachs in 1999. Experts still argue about their motives. Greed played a part: it was a way for partners to cash out above book value. But there was also a genuine need for permanent equity as capital requirements rose and as investment banks moved deeper into capital-intensive businesses such as market-making and trading. Partnership equity, by contrast, is ephemeral because partners withdraw their stakes after retiring.

The biggest of the remaining investment-banking partnerships, BBH is still quite small, with $600m of capital. Another member of the club is the much younger Sandler O'Neill, founded in 1988, which focuses on advising and raising capital for other financial firms. Beneath them are a gaggle of smaller partnerships. Some look to go public when they reach a certain size, as Greenhill, Evercore, and Keefe, Bruyette & Woods (KBW) have all done since 2004.

Partnerships are defined as much by what they don't do as what they do. They generally cleave to capital-light businesses, such as wealth management and giving advice. BBH is a foreign-exchange dealer but only because this dovetails with

private banking. Its leaders are careful about the risks they take because, as "general partners", they face unlimited personal liability should the firm blow up. Partnerships can come a cropper: witness Goldman's near-death experience due to bad interest-rate bets in 1994. But none of the remaining partnerships is too big or interconnected to fail.

Cautious though they are, today's partnerships appear to be competitive. BBH does not disclose profits but says 2008 was its best year ever. 2009 was rockier but return on capital was still above 40%, it claims. (Even so, partners forwent all salary.) It regularly tops client polls for custody services and securities lending. It is a market leader in some technologies: a data-communications service for investors is being taken up by the telecoms industry, too. Sandler is thought to have made a tidy profit on securities it bought for a discount in the crisis, although its upside is limited by a refusal to leverage its balance-sheet. Houlihan Lokey, a privately owned Los Angeles-based investment bank, says the past two years were its most profitable yet.

BBH's leaders accept that partnership has pros and cons. One downside is the need to regenerate the capital base once every generation, though some have mitigated this by bringing in outsiders. Carlyle, a private-equity firm, owns a minority stake in Sandler, for instance. Partnerships lack shares that can be used as currency for acquisitions (though that may be a blessing in disguise). And the decision-making structure can be "more like a wedding cake than a pyramid", says Brad Hintz of Sanford Bernstein-unwieldy, with many partners wanting a say.

Cultural cohesion is an advantage, though it comes under strain as partnerships expand. BBH has wrestled with this issue as its headcount abroad has swollen to 1,000, a fifth of the total. Another benefit is being able to grow at your own pace, unpressured by public markets.

Jimmy Dunne, Sandler's boss, sees a link between public ownership and the dangerously high leverage that undid many banks. "Most firms were right to go public, given the ready access to capital it provided," he says. "But while Wall Street can provide growth, predictability of earnings is more difficult. As public firms, they felt obliged to deliver consistent, no-surprises profit growth. But that goes against the reality of Wall Street, which is a volatile business. The only way to paper over the cracks when markets turned was by increasing leverage."

Some public firms have benefited from retaining partnership-like features. Goldman's top brass are required to hold 75% of all equity awards until they leave the firm (not that this has endeared it to politicians or the public). In a fit of honesty in 2009, John Thain, who had made a mint running Goldman, the NYSE and Merrill Lynch, advocated reforming pay to reflect partnership structures, with bosses getting 100% in stock that would vest over ten years and be unsellable until they retired. In a 2010 paper two professors at the University of Minnesota proposed reintroducing personal liability for senior bankers, for all but their last $1m. The idea was a bigger hit with the press than with regulators.

Michael Lewis, of "Liar's Poker" fame, has suggested that the move away from partnership shifted the psychological foundations of Wall Street "from trust to blind faith", allowing bankers to get one over on shareholders and taxpayers. But this argument is moot, says Roy Smith of NYU Stern, a former Goldman partner. A return to the old days is inconceivable given Wall Street's subsequent evolution.

Even Mr Donahue accepts that "the partnership structure alone would not be effective in supporting an entire financial system." There is "no simple link between ownership structure and risk management," says John Duffy, KBW's boss. "It comes down to management intelligence." In any case partnerships these days come in various types, some not so different from public rivals. Most of Sandler's partners enjoy limited liability, for instance.

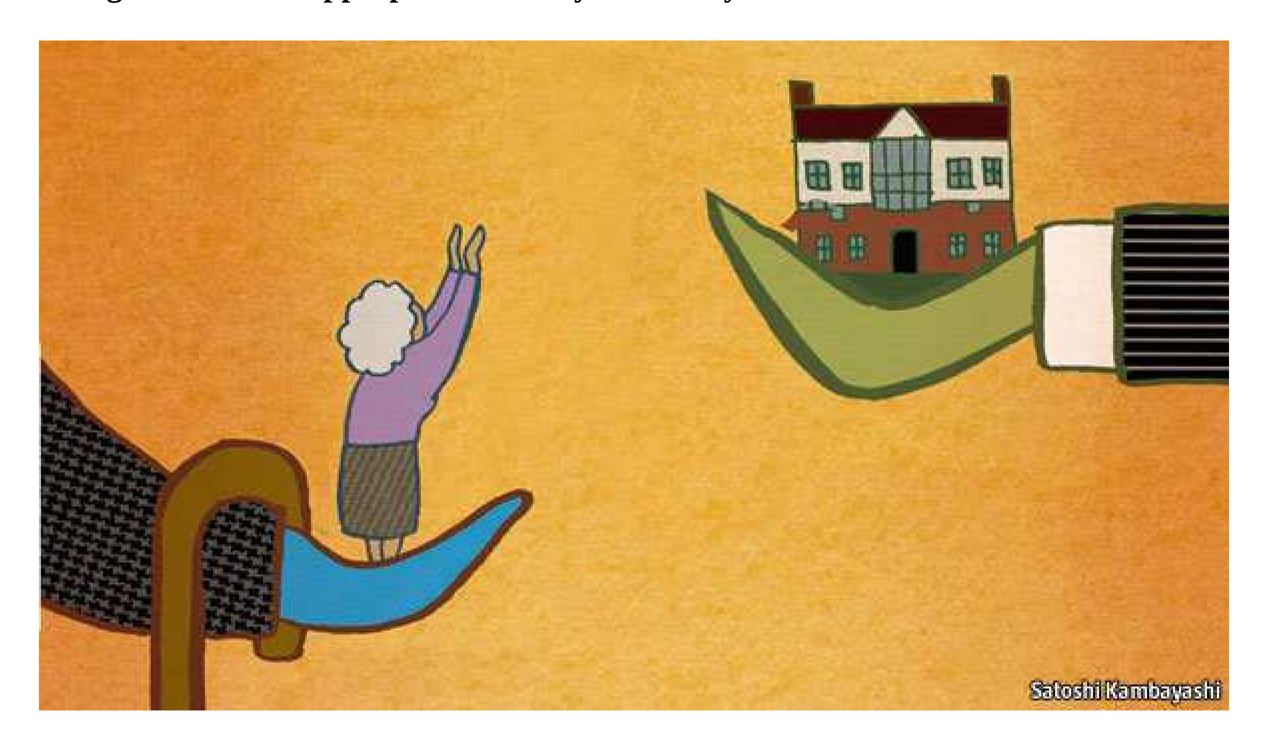
The remaining partnerships seem in no hurry to go public. It is a move that BBH "thought about for 20 minutes" during the froth of the late 1990s, says Mr Donahue. Being a partnership is such a "remarkable privilege" that the firm is "happy to have its structure dictate strategy." And by all accounts BBH's partners do very nicely when they eventually extract their capital-even if the sums involved would seem more shocking to Dickens than to Mr Dimon.

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Buttonwood

Careless

A popular financing model is less appropriate in today's economy



SOUTHERN CROSS, a British operator of care homes for the elderly, is battling for its corporate life. This week it arranged a deal on rent reduction with its landlords in an attempt to reduce its operating costs.

As is quite common in other property-linked businesses such as retailing and cinemas, Southern Cross does not own the homes it operates. It has had a rather complex corporate history, having been owned by private-equity firms and expanded through mergers with other groups. Perhaps the crucial deal was a merger with another care-home operator, Highfield, whose homes were owned by a linked but separate company called NHP, now Southern Cross's biggest landlord. The Highfield/NHP split is known in the jargon as the "opco/propco" model (for operating company and property company, respectively).

Why is the model used? Clearly it costs money to build a nursing home or a supermarket. A business has the choice of borrowing money to finance its construction or leasing the home from a property group. There can be tax advantages either way: leasing payments and interest costs are both tax-deductible. But the opco/propco model fits the modern fashion for making businesses a "pure play" on a particular trend. One group of investors will be interested in the potential for nursing-care demand to rise as the population ages, and buy shares in the operating company. A second group will be attracted by the security and steady income of bonds issued by the property company.

Specialisation involves some risk. As an operating company Southern Cross had to assume that its income from residents would rise faster than its lease payments, which had annual increases built in. The owners and bondholders of the property company had to assume that Southern Cross was able to keep its part of the bargain and that property values would not plunge.

In the case of supermarkets such a strategy may well pay off. Consumer demand for groceries is pretty consistent, whatever the economic conditions. Those who owned care-home operators clearly thought that they too had a recession-proof model. After all, the British population is steadily ageing and children are less willing to look after their parents than they used to be.

But there were two potential snags. The first is that the elderly are making more effort to stay in their own homes for as long as possible. By the time they go into nursing care, their condition has often deteriorated to include immobility, incontinence and dementia. Caring for such people is more expensive.

The second is that care is beyond the private means of all but the affluent, and even their savings can quickly run out. The cost of funding then switches to local councils, whose finances are under huge pressure. They have become hard negotiators, driving down the fees charged by homes. This seems to be the thing that caught out Southern Cross.

It is hard to see the strains on British public finances easing soon. That may create a long-term problem. If caring for the elderly looks like an unattractive business, some homes may close and new homes will not be built. In the long run this could lead to a shortage of places.

But the saga also raises more general questions for the corporate sector. A geared business model or balance-sheet (one that is sensitive to small changes in revenue or asset prices) made sense in the pre-crisis era, which was marked by steady growth and easy credit. Such a model does not work in a stop-go economy with frequent recessions. Companies have to be very confident that they will not be sabotaged by a sudden dip in revenue, or by a loss of confidence among creditors that makes them unwilling to keep extending funds.

There are also echoes of the subprime crisis. Just as investors assumed that American house prices would always go up, elderly-care investors thought local councils would always underwrite their fees. A complex business structure added to the problems. Had Southern Cross built its homes via loans from banks, it would now be negotiating with a few bankers rather than with a dispersed group of landlords.

Another issue is the moral hazard that arises from an implicit public subsidy of a business. On top of the existing funding role played by local councils, no government could stand by and let such a vulnerable group go without care. There is thus a legitimate public interest in ensuring that the nursing-home industry does not take on too much risk.

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Chinese property

Popping the question

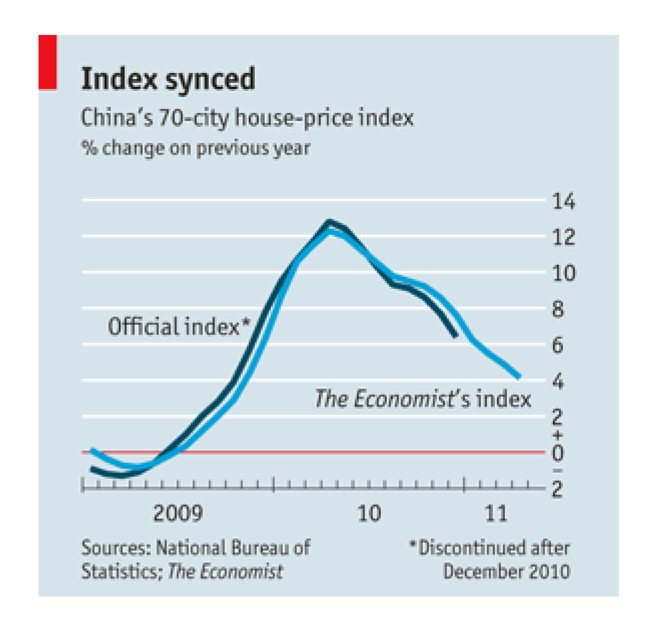
China's bubbly property markets have not burst. Yet

BUBBLES are supposed to burst with an audible pop. But in the snap and crackle of the Chinese housing market, it is hard to hear anything clearly. On June 9th the *Wall Street Journal* put its ear to the ground and declared that "the great property bubble of China may be popping". It pointed out that prices had fallen by 4.9% in the year to April in nine big cities tracked by Rosealea Yao of GaveKal Dragonomics, a consultancy. Ms Yao herself thinks a "correction" in the next six months is inevitable. But she argues that it is still "a bit early to say the bubble is bursting".

Official figures released on June 14th added more noise. They suggested that builders started work on 19% more residential floorspace in May, compared with a year earlier, and sold 18% more. But the sales figures were flattered by comparison with May 2010, an unusually slow month following a government clampdown on speculative homebuying a few weeks before. And the starts figures may have picked up the government's drive to build more affordable housing.

In other countries, such as America, economists can rely on clear signals from credible price indices. In China the National Bureau of Statistics used to publish a price index spanning 70 cities. But that measure muted both the highs and lows of China's housing market. It suggested that prices for new and existing homes never fell by more than 1.3% during

the financial crisis, and never rose by more than 12.8% a year in the boom that followed. That was hard to square with the head-splitting prices homebuyers were paying in the big cities. People stopped paying attention to the national index. In December the government ceased publishing it.



The bureau does, however, still track prices in the 70 individual cities that made up the index. Weighting the cities by population, and weighting the mix of new and existing properties by floorspace, *The Economist* has tried to rebuild China's abandoned house-price index (see chart) from its constituent parts. Our calculations suggest nationwide prices are still rising-by 4% in the year to April-but only slowly. The pace of increase has eased steadily for 12 months in a row.

In the absence of credible government figures, many analysts have turned to private-sector alternatives. A 100-city index published by Soufun, a property consultancy, shows prices rising by 5.1% in the year to May. But in many of those cities its coverage is patchy, especially in smaller localities where developers may not have good, computerised records to share. That is one reason why Ms Yao, who draws on Soufun's figures, concentrates only on the nine cities it covers best.

The first signs of a sharp reversal may not show up in prices anyway. The volume of sales tends to drop first, because optimistic developers will try to wait out a bad patch, hoping that better times will return. Despite the 18% rebound in May, most analysts believe sales are dropping sharply.

Developers can stay out of the market only for as long as they can stay out of the red. As their cash pile dwindles and liabilities fall due, they will be forced to sell, whatever the market conditions. To give themselves more leeway, bigger developers have turned away from fickle onshore financing to international bond markets. The 30 developers rated by Standard & Poor's, a rating agency, raised about $8 billion of mostly five-year money in the first five months of this year, compared with $8.8 billion in the whole of 2010, itself a record year. Developers can bring this money back into the country, despite China's capital controls, provided they show a bit of patience and a commitment to build things in unfancied cities.

Even so, the debts of many smaller developers will fall due next year. Standard & Poor's expects property prices to fall by about 10% over the next 12 months, but it does not rule out a "price war" if distressed selling by overstretched developers begins to feed on itself. If China's property market is a bubble, it may end with a squeal as well as a pop.

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Greek banks

The first casualties

The impact of a sovereign-debt restructuring on Greek banks

Correction to this article

A MESSY end to Greece's debt crisis seems ever more plausible. Standard & Poor's this week slashed the country's credit rating giving it the lowest score of any country in the world. Violent protests against a fresh round of austerity measures scarred Athens on June 15th. And dissent among European policymakers about how to involve private creditors in a new rescue package for Greece rumbled on.

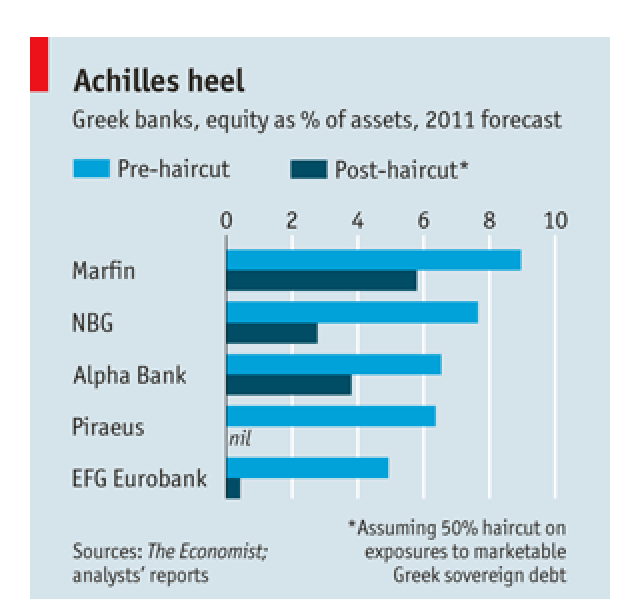
Much of this debate centres on whether a restructuring of the country's debt would spark wider contagion. The European Central Bank, the most vocal opponent of restructuring, thinks it would: on June 14th Mario Draghi, the ECB's president-in-waiting, warned that any attempt to impose costs on Greek bondholders could lead to a "chain of contagion".

The first links in that chain are the Greek banks. They have had a surprisingly good crisis given the country's economic woes. Most were profitable last year. Several have managed to raise capital in recent months. Their vulnerability stems from their exposure to Greek government debt, which stands at about euro70 billion ($100 billion), an amount that is roughly twice as large as their equity cushions.

Least damaging for Greek banks in the short term would be some form of agreement among creditors "voluntarily" to roll over their holdings of government debt. But that would not reduce the country's debt burden. Nor would it allow Greek banks to reduce their exposures.

A second option could be some form of "soft" restructuring in which Greece extended the maturities of its debt while still promising to repay it in full. This is the option favoured by Germany. A rescheduling would reduce the net present value of the debt held by Greek banks, which might lead to impairments. But there would probably be only a limited impact on capital because accounting rules give banks wide latitude in calculating the net present value of the bonds, enabling them to reduce the hit they would take to capital.

A rescheduling of a specific chunk of their government bonds, such as those maturing between 2012 and 2014, would have an even smaller effect and could be easily weathered by the country's biggest banks, according to Standard & Poor's. Such losses could probably be absorbed by existing capital and, if need be, topped up by the euro10 billion set aside in Greece's 2010 bail-out package to recapitalise banks in a Financial Stability Fund.



A more radical third option, a "haircut" on the value of Greek debt, would have a significant impact on Greek banks because losses would have to be recognised immediately. Some analysts use a simple rule of thumb, given that holdings of Greek government bonds are about twice as large as their capital buffers, of doubling the size of a haircut to arrive at the reduction in capital. A haircut of about 20% would leave banks standing but probably in need of capital injections greater

than those already budgeted for. A haircut of 50%, close to current market values for ten-year Greek bonds, would largely wipe out shareholders and require a significantly larger bail-out to recapitalise the banks (see chart). None of Europe's leaders likes this option but it would be money well spent if it put Greece's debt on a sustainable path.

In all cases the survival of the banking system would depend on whether the ECB continued to accept Greek government bonds as collateral for its liquidity operations. ECB officials have said they are prohibited from doing so in the event of a restructuring, but bankers point out that they have rewritten their rule book often enough and could do so again. Crucially, Greek banks also depend on depositors keeping their nerve. So far they have pulled less than a fifth of their money out of banks. For all the ECB's tough talk about containing contagion, it needs to be careful not to spark the very bank runs it fears.

Correction: We originally wrote that Standard & Poor's now rated Greece at the lowest notch above default; in fact it is four notches above. We also said that rescheduling would lead to impairments on sovereign debt held by banks: that is not necessarily the case if the principal or interest rate on debt in the banking book stays the same. This was corrected on June 23rd 2011.

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Brian Lenihan

A battle too far

Ireland's former finance minister dies, at just 52



The face of Ireland's crisis

FOR most of the 2000s the job of Ireland's finance minister was fun: watch the revenues roll in, don't ask too many questions and spend enough to ensure re-election. For Brian Lenihan, who died of cancer on June 10th, it was impossibly hard. On his appointment in May 2008 he said that it was his misfortune to take on the job just as Ireland's property boom was ending. He could not have foreseen just how unfortunate.

Mr Lenihan will be remembered for one decision in particular. In September 2008 the collapse of Lehman Brothers prompted him to announce a blanket guarantee to creditors of Ireland's big lenders. In hindsight that was a huge mistake. The scale of the banks' bad debts overwhelmed the ability of the Irish state to meet its promise. Ireland's bail-out last November can be traced to that moment; a debate on imposing losses on bank bondholders still rages.

At the time, of course, things were less clear-cut. Few realised just how ropy the banks were. Protecting creditors is a well-worn way of muting financial panic, and for a while at least the guarantee did just that. Mr Lenihan's later decision to set up an asset-management agency to take on the banks' dud property loans was also taken from the textbooks. The problem was that the asset transfers forced the banks' losses into the open. The cheapest bail-out in the world, as he initially called it, turned into one of the costliest.

Mr Lenihan's Fianna Fail party paid a heavy price in elections earlier this year. He was the only member of his party to retain a seat in Dublin. Voters may have been responding to his tenacity, in grappling with the crisis and his own illness.

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Oil benchmarks

Wide-spread confusion

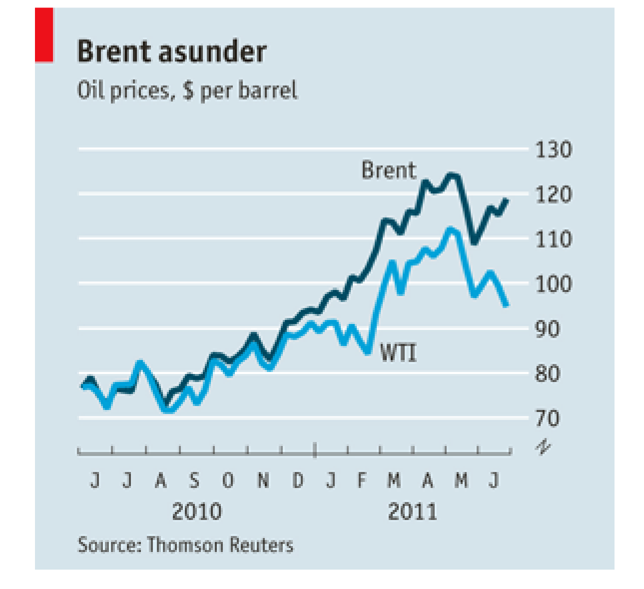
What, exactly, is the price of oil?

FINDING out the price of oil used to be simple. A quick check of either of the two main gauges of international markets-West Texas Intermediate (WTI) or Brent Blend-would suffice. But this year, as oil prices have soared, a gap has opened up between the two benchmark crudes. On June 15th the spread hit a record: close to $23 dollars a barrel.

For years prices of WTI and Brent were locked together, though the higher-quality American WTI oil generally traded at a premium of a dollar or two to reflect its slightly lower viscosity and sulphur content, which ease refining into petrol, heating oil and other products. Patterns of supply and demand in America, the world's biggest consumer and importer of oil, rarely diverged much from the rest of the world, where Brent is the main indicator.

That has changed. The contracts for WTI stipulate "for delivery" to windswept Cushing, Oklahoma (population 8,371), which is strategically situated to serve the refineries of the Gulf of Mexico, and thence the petrol-thirsty northern seaboard. This gave oil firms lots of incentive to build pipelines to Cushing: in recent months oil has poured into Cushing's growing and labyrinthine storage facilities.

There it has stayed. A new pipeline from Canada's oil sands, which opened in February, and unexpectedly large flows of shale oil from North Dakota's Bakken field have coincided with lacklustre oil demand in America. Planning difficulties mean that a proposed new pipeline from Cushing to the gulf refineries (from where the oil can be shipped abroad) will not open until 2013 at the earliest. Attempts to shift the oil by road and rail have made only a small dent in rising inventories.



Meanwhile recent maintenance shutdowns in the North Sea have worsened already declining supplies from ageing fields of Brent crude. Brent's ready access to seaborne markets means that its price is far more sensitive to booming demand in China and elsewhere. Hence the spread with WTI in recent months (see chart).

Over the past few days another, more mysterious spread has opened up. The price of Louisiana light and sweet (LLS), an oil grade that feeds America's gulf refineries, has detached from Brent too, selling at around $4 a barrel less rather than its usual premium of a dollar or so.

Even as WTI and Brent took different tacks, LLS and Brent had remained in lockstep. The reasons for the new divergence are hotly debated. Analysts at Goldman Sachs offer several theories, including a shortage of this grade of oil in Europe (it is of similar quality to absent Libyan supplies) and a general redirection of crude to booming Asia, without any corresponding rise in demand for LLS.

These price differences matter to businesses such as airlines, which hedge exposure to shifting oil prices. Long-dated futures markets for jet fuel are highly illiquid. Much of the hedging is carried out with WTI contracts but the actual fuel is mainly refined from pricier oils. Commodities funds that hold WTI are also scratching their heads over what to do about buying and selling an oil that no longer reflects the wider global market.

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Digital currencies

Bits and bob

Bitcoin has got geeks excited. What about economists?



MILTON FRIEDMAN famously called for the abolition of the Federal Reserve, which he thought ought to be replaced by an automated system that would increase the money supply at a predetermined rate and so keep a lid on inflation. A virtual version of this now exists.

Bitcoin, the world's "first decentralised digital currency", was devised in 2009 by a programmer called Satoshi Nakomoto (thought not to be his, or her, real name). Unlike other virtual monies, such as Second Life's Linden dollars, it can be used to purchase real-world goods and services. And rather than relying on a central monetary authority to monitor transactions and manage the money supply, Bitcoin is run by a peer-to-peer network (akin to file-sharing services like BitTorrent).

This absence of a central monetary authority to control the money supply is what many find exciting about Bitcoins. Quantitative easing is not possible. Coins are created at a constant average rate to reward users who give up some of their computing power to track and validate transactions that are made with the currency*.

The rate at which Bitcoins are minted is designed to mimic the extraction of minerals. As the most accessible resources are exhausted, the supply dwindles. The Bitcoin supply increases at a rate of 300 coins every hour on average at the moment, but every four years that rate will fall by a half. The total supply will level off at 21m coins or so around 2030. That appeals to those who distrust paper currencies.

The currency can be used by anyone (unlike credit cards), anywhere. Transaction costs are also likely to be lower than those for traditional payment systems, though they are not zero. Some are reflected in the hardware and energy used to police the system. Some creep in whenever those who have no wish to mine Bitcoins themselves purchase them for dollars, euros and other currencies at specialised websites such as Mt Gox.

Critics point out that Bitcoins suffer the same flaws as other metal-based currencies with finite supply. Many economists put at least part of the blame for the severity of the Depression on the strictures of the gold standard, as countries clung to gold and put off stimulus. In the case of Bitcoins, some think that decreasing the rate of money creation over time will entail deflation. People who own Bitcoins will prefer to hold on to them rather than spend them, because deflation will mean that their stash of Bitcoins will buy more real goods in the future than now.

That assumes that Bitcoins are something people are happy to take in return for goods, or at least to exchange for paper money. As wild swings in their dollar price have demonstrated, the currency is young and illiquid-only 6.5m units are currently in circulation among some 10,000 users (including several hundred merchants who accept payment in Bitcoins).

Attracting enough users to smooth such volatility seems unlikely in the foreseeable future. Established fiat currencies-ones where bills and coins, or their digital versions, get their value by dint of regulation or law-are underwritten by the state

which is, in principle at least, answerable to its citizens. Bitcoin, by contrast, is a community currency that requires self-policing on the part of its users. Most people would rather devolve this sort of responsibility to the authorities.

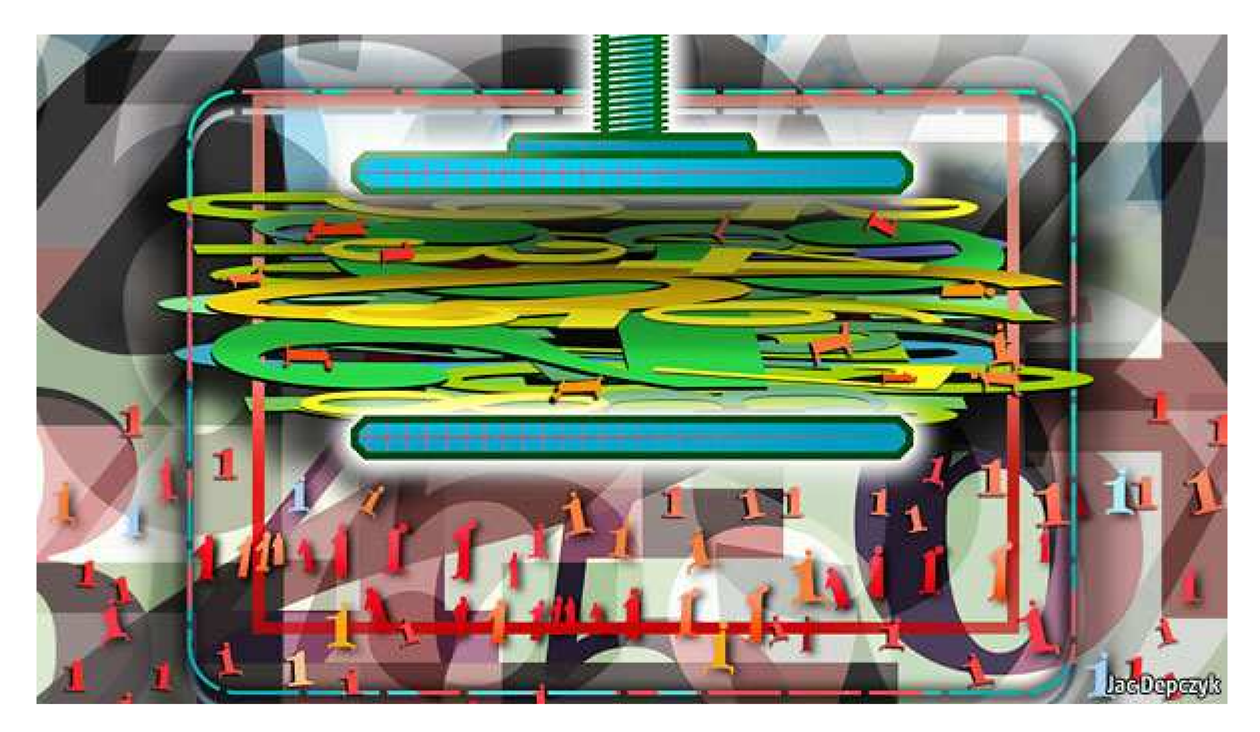
Moreover, Bitcoin may be useful for trading goods and services but it does not yet allow borrowing or lending. In the physical world this happens through financial intermediaries: you put money in a bank, and someone else borrows it. A virtual Bitcoin bank might spring up but that would create problems of its own. How would a saver be assured that he would get his money back when he wants? If a bank got into trouble, who would be the lender of last resort? The usual answer is a central bank: exactly what Bitcoin is trying to avoid. Bitcoin is technically sophisticated. As a monetary system, it looks primitive.

* Learn more about how Bitcoin works

Economics focus

The great repression

Post-war governments reduced debt by constraining savers' options. That is harder today



OF THE many unpleasant legacies left by the economic crisis the mountain of sovereign debt may prove hardest to erode. Across the rich world, debt levels approaching 90% of GDP are now common. Indebted governments face an unenviable menu of options. Growing their way out of trouble will prove difficult as economies deleverage. Austerity, a second and unappetising choice, can easily choke recovery. Defaults are seen as a last resort. Politicians are searching for an easier way.

There is another model. Following the second world war many countries reduced debt quickly without messy defaults or painful austerity. British debt declined from 216% of GDP in 1945 to 138% ten years later, for example. In the five years to 2016, by contrast, British debt as a proportion of GDP is expected to drop by just three percentage points despite a harsh austerity programme. Why was it so much easier to cut debt in the immediate aftermath of the war?

Inflation helped. Between 1945 and 1980 negative real interest rates ate away at government debt. Savers deposited money in banks which lent to governments at interest rates below the level of inflation. The government then repaid savers with money that bought less than the amount originally lent. Savers took a real, inflation-adjusted loss, which corresponded to an improvement in the government's balance-sheet. The mystery is why savers accepted crummy returns over long periods.

The key ingredient in the mix, according to a recent working paper* by Carmen Reinhart of the Peterson Institute for International Economics and Belen Sbrancia of the University of Maryland, was "financial repression". The term was first coined in the 1970s to disparage growth-inhibiting policies in emerging markets but the two economists apply it to rules that were common across the post-war rich world and that created captive domestic markets for government debt.

The exchange-rate and capital controls of the Bretton Woods financial system kept savers from seeking high returns abroad. High reserve requirements forced banks to lock up much of the economy's savings in safe asset classes like government debt. Caps on banks' lending rates ensured that trapped savings were lent to the sovereign at below-market rates. Such rules were not necessarily adopted to facilitate debt reduction, though that side-effect surely didn't go unnoticed. The system was ubiquitous, reducing pressure on governments to abandon it.

Repression delivered impressive returns. In the average "liquidation year" in which real rates were negative, Britain and America reduced their debt by between 3% and 4% of GDP. Other countries, like Italy and Australia, enjoyed annual liquidation rates above 5%. The effect over a decade was large. From 1945 to 1955, the authors estimate that repression reduced America's debt load by 50 percentage points, from 116% to 66% of GDP. Negative real interest rates were worth tax revenues equivalent to 6.3% of GDP per year. That would be enough to move America's budget to surplus by 2013 without any new austerity programme.

The same conditions of instability that produced the post-war system of repression are again at work. Banks' reserve requirements are rising in the wake of the financial crisis. Regulators like Britain's Financial Services Authority are mandating that banks boost their holdings of safer government bonds for liquidity reasons. The new Basel 3 rules on bank capital still privilege government debt over other assets, nudging holdings toward sovereign debt despite the possibility of below-market returns. Interest rates hint at a return to post-war conditions, too, according to the Reinhart-Sbrancia sample of advanced economies. From 1981 to 2007 real interest rates were almost always positive. Since then they have been negative about half of the time.

More desperate governments are going further still. Ireland has raided its national pension reserves to help meet financing needs. European leaders are considering a textbook example of repression to postpone a reckoning on Greece's debt. European banks are under state pressure "voluntarily" to roll over or reprofile their holdings of Greek government debt.

Emerging markets had more buttoned-down financial systems to start with. China, the world's second-largest economy, is the financial system's arch-represser. Tight controls over the banking system and strict limits on capital movements enable China's leaders to hold down the value of its currency. An implicit tax on Chinese savers keeps down government borrowing despite hefty state expenditures.

Don't hold it in

Politicians are sure to find bits of the post-war model appealing, despite the distortions to investment decisions it entails. Fortunately, the financial world is a far more liberal, multipolar place than it used to be. The Bretton Woods system fractured amid the inflationary pressures of the 1970s, around the time the rich world embarked on a three-decade process of financial liberalisation. Capital now flows quickly and easily around the world in search of high returns. New regulations in the West have done little to change that. China, too, is easing its financial controls. It is difficult to imagine how the genie of liberalisation can be stuffed back into its lamp.

Nor is repression alone enough to solve debt woes. Inflation is necessary too, and the example of Japan suggests that ageing societies may prefer to sacrifice the young to a long period of slow growth rather than erode the savings of older voters. Most importantly, governments must stop adding new debt. Even in a financially repressed system austerity is not entirely avoidable. Most economies must still cut their debts the hard way.

* "The Liquidation of Government Debt", Peterson Institute for International Economics working paper, April 2011

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Correction: Financial bail-outs

Our article on financial bail-outs ("Hard-nosed socialists", June 11th 2011) said that Britain had lost pound2 billion ($3.3 billion) on its interventions. If an asset-insurance scheme is included, Britain estimates it will end up earning pound3.4 billion.

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Economics writers

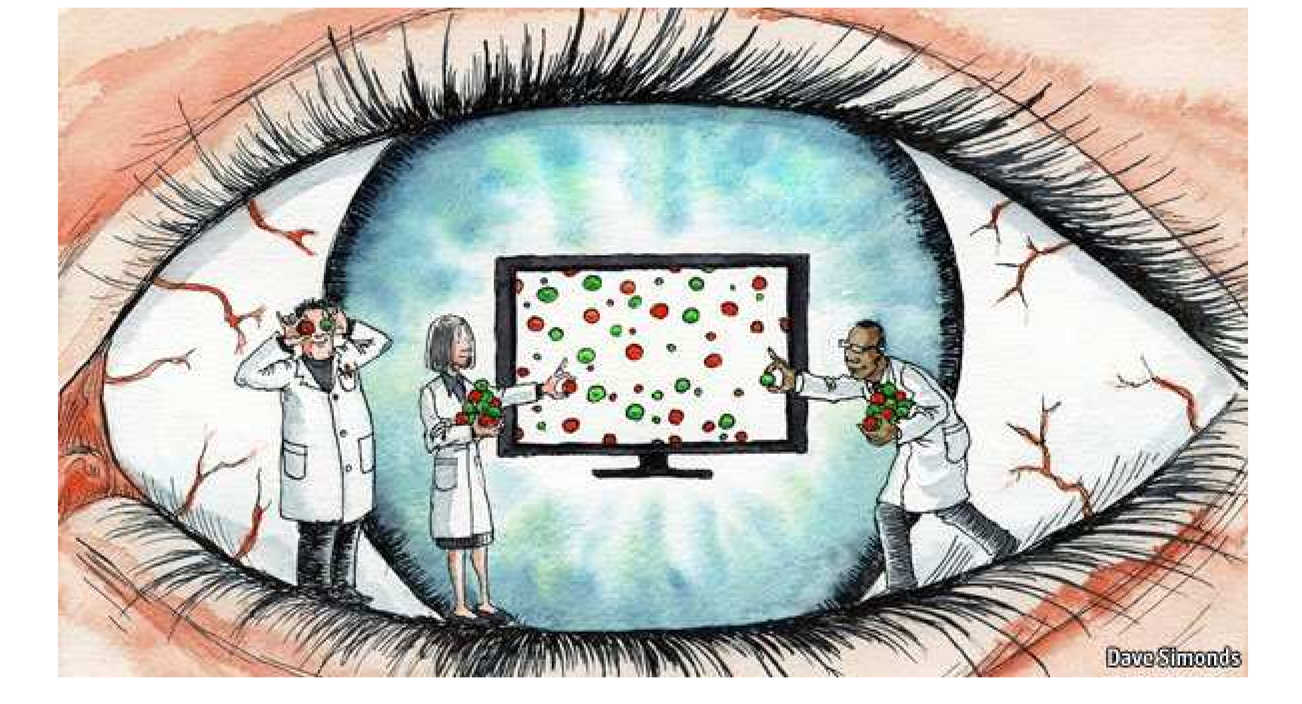
The Economist is looking to expand its team of economics writers. The successful candidate will combine a strong technical background with the ability to write simply and entertainingly about the dismal science in general, and the nexus between economics and business in particular. The position will involve co-ordinating *The Economist*'s online economics coverage as well as contributing to the print edition. Applicants should send a copy of their CV along with a 500-word article that could be published in this section to economicsjob@economist.com by June 24th.

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Quantum-dot displays

Dotting the eyes

How tiny crystals can improve picture quality



GOOD as modern display screens are, they could be a lot better. Even the best liquid-crystal display (LCD) can produce only about a third of the range of colours which the human eye (in collaboration with the brain) can perceive. But that may soon change, with the deployment in screens of structures called quantum dots.

A quantum dot is a semiconductor crystal a few nanometres (billionths of a metre) across-about 50 atoms wide, in other words. When excited, such crystals emit light. The wavelength, and hence the colour, of this light depends on the size of the dot. Large ones emit long wavelengths (red light). Small ones emit shorter wavelengths (blue). Those in between fill in the spectrum with colours such as green. The plan is to use this property to generate nuances of colour that are beyond the range of existing LCDs.

An LCD employs its liquid crystals, a curious form of matter whose optical polarity can be manipulated electronically, as minuscule shutters that either permit or forbid the passage of white light. In the most modern LCDs this light is generated by light-emitting diodes (LEDs) and is then diffused in a special layer of the screen behind the shutters. White light which passes through a liquid-crystal shutter falls on a filter that imposes one of the primary colours-red, green and blue-on the output. By grouping these shuttered filters in threes, one of each colour, an individual picture element, or pixel, is created. Combining the three primaries in different proportions by varying the amount of light passing through the shutters allows each pixel to produce a range of colours.

Somewhere, over the rainbow

A few years ago even a third of the range of human perception was impressive. But times move on, and Jason Hartlove, the boss of a Californian firm called Nanosys, thinks he can do better. Using quantum dots, he says, Nanosys can increase the number of possible colours still further.

The problem his quantum dots are intended to overcome is that the LEDs preferred by the display-screen industry are not white enough. They emit light which is biased towards the blue end of the spectrum. This colour bias is reflected in the mixture of frequencies that form the picture on the screen. For some viewers, the results can look rather cold.

Nanosys's quantum-dot-enhancement film, as the company calls its product, uses the dots to tweak the spectrum from the LEDs so that it is closer to that of the white light the human eye is used to. It does this, as the product's name suggests, by passing the LED light through a transparent film peppered with quantum dots, which absorb and re-emit some of it.

These dots are of two sizes. The larger re-emits the absorbed energy as red light. The smaller re-emits it as green. The final, filtered image is thus drawn from a broader palette than is permitted to an existing LCD-50% broader, according to Nanosys.

The other advantage Nanosys claims for its technology is that it can be fitted easily into existing manufacturing processes. It is simply a matter of replacing the diffuser layer with a quantum-dot-enhancement film. Making the film itself is easy, too. The dots, composed of a semiconductor called indium phosphide, are sprayed onto a transparent plastic sheet that is then covered with a second sheet. That done, the whole thing is heat-sealed. The film can therefore be manufactured continuously in a reel-to-reel process a bit like printing. This cuts costs enormously.

The result, according to Mr Hartlove, is that cinema-like levels of colour are possible on the small screen, too. That could lead to new applications, such as professional-quality colour photography, being available on tablet computers, mobile phones and the like.

Tweaking traditional LCDs in this way may, moreover, be only the beginning for quantum dots. Some engineers think dots might be used to jump a complete generation of screen technology.

At the moment, many of those in the business believe the next generation of screens will be made using devices called organic light-emitting diodes (OLEDs). Unlike standard LEDs, whose light has to be filtered and processed to get its intensity and colour right, OLEDs would be made into pixels directly, with diodes of different composition providing each of the primary colours. OLED screens can be brighter than LCDs, their colours are richer and deeper, and the screens themselves are thinner and have a lower power consumption-all attractive propositions. Unfortunately, large OLED screens are costly to make and OLEDs tend not to last as long as standard LEDs.

More dotty ideas

Quantum dots may leap to the rescue. Indeed, they promise to be brighter even than OLEDs and may displace them completely. The value of OLEDs, beyond their brightness, is that the electricity which powers and controls them is turned directly into the light the user views. No filtering and processing of that light is required. Exactly the same arrangement is possible, though, with quantum dots, which can also generate light directly from electricity. And, since the circuitry needed to run OLED screens has now been developed, it should be reasonably simple to substitute OLEDs with quantum dots.

Earlier this year researchers at Samsung Electronics did precisely that. They demonstrated an experimental quantum-dot display made of strips of red, green and blue dots on an array of special transistors that powered and controlled them. And Samsung is not alone. Recently QD Vision, a firm based in Massachusetts that uses quantum dots to whiten the output of its LED lighting units, showed off a prototype quantum-dot display which it claims matched the efficiency and colour levels of an OLED screen. Though QD Vision says a lot more work remains to be done before this display can be made commercially, it believes quantum-dot displays should end up being cheaper than OLED screens.

Nor are screens the only use to which quantum dots might be put. Engineers at Nanoco, a British firm, think the dots could help generate solar power. The firm's plan is to increase the efficiency of solar cells by tweaking the incident sunlight so that it matches that best absorbed by such cells. Efficiency is crucial in such cells if they are ever to be a substitute for existing methods of mass power-generation, such as coal and gas.

Quantum dots, then, look as if they have a bright future. Much hype has surrounded the idea of nanotechnology-the thought that manipulating objects on scales of a billionth of a metre will produce useful products. So far, the results have been less than spectacular. Dots, though, may prove an exception.

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Materials science

Don't slag it off

How to make bricks out of industrial waste



Considerate builders think of the future

BUILDING houses and offices out of toxic waste sounds like a pretty eccentric idea. Yet it may become commonplace if Ana Andres of the University of Cantabria in Spain has her way. For Dr Andres and her colleagues suggest, in *Industrial & Engineering Chemistry Research*, that the humble brick need not be made of pure clay. Instead, up to 30% of its weight could be slag-the toxic gunk left over when steel is made.

Waelz slag, to give its technical name, is composed mainly of silica but is also undesirably rich in poisonous metals like lead and zinc. Getting rid of it safely is thus a problem. Getting rid of it usefully might sound like a miracle. But that is what Dr Andres proposes. A series of experiments she has conducted over the past three years suggests this is not only possible but will make bricks cheaper and more environmentally friendly.

Her research started after she read of previous work which had shown that many ceramics suffer no loss of integrity when the clay used to make them is mixed with other materials, and that the molecular structure of some ceramics acts to trap atoms of toxic heavy metals. She wondered whether these things might be true of brick clay and Waelz slag, and she began experimenting. The answer, she found, was that they are. Bricks show no loss of useful mechanical properties even when 20-30% of their content is slag. Nor do they leak.

To check that, Dr Andres and her team ground their bricks into powder and soaked them in water, shook them in special machines for days at a time, and even tried to dissolve them in nitric acid. The pollutants stayed resolutely put. Moreover, adding slag to the clay reduced by a third the amount of carbon dioxide each brick released during its manufacture, because wood pulp is added to clay before it is fired, and less clay means less pulp is needed. The cost, too, fell, because slag is free, whereas clay costs money.

There is, of course, the problem of customers. Whether people will be willing to live and work in structures that double as waste dumps is moot. But for those who want to make an eco-point, what better way could there be than, literally, to build their green credentials?

Metabolic syndrome

A slim chance

Insulin's role in obesity

ONE of the horrors of obesity is that once it takes hold it is fiendishly difficult to reverse. The overweight often find it impossible to avoid eating to excess, and so the kilos continue to pile on. Judgmental observers of this pattern might simply blame lack of willpower-and it is certainly true that willpower in prodigious quantities is needed to climb back up the slope to svelteness. But understanding why that slope is so slippery might help the sinner who wishes to repent, and such understanding may have come a little closer this week with the publication in *Cell Metabolism* of a study by Jens Bruning, of the Max Planck Institute for Neurological Research in Cologne, and his colleagues.

Obesity is one manifestation of a group of symptoms known as metabolic syndrome. Another symptom is late-onset diabetes. Unlike its cousin early-onset diabetes, which is caused by a lack of insulin, the late-onset variety results from resistance, in those cells that should react to the hormone, to insulin that is in fact available. This has all sorts of bad effects, since insulin regulates the absorption and release of sugar and, though late-onset diabetes is not quite the killer that the early-onset variety is, the result is still pretty nasty.

Dr Bruning found himself wondering if such resistance extended to insulin-regulated cells in the brain, and whether that might be an explanation for the inappropriate appetites of the obese. To find out, he looked at the behaviour of such cells in the part of the midbrain responsible for producing the sensation of pleasure.

Genetic technology allows genes, and thus the proteins those genes encode, to be knocked out of individual mice. Dr Bruning knocked out the insulin-receptor gene that is expressed in midbrain cells. Specifically, the cells in question were the ones responsible for making the precursors of dopamine, a signalling molecule with a well-established role in generating the sensation of pleasure. He tested cells from both sorts of mice to make sure that those with the receptor gene knocked out really were less active than the others in the presence of insulin (they were) and then monitored the feeding patterns of the two types of mice.

The upshot was that the knockout mice ate considerably more than the normal animals. At six weeks of age, the onset of adulthood, the average meal size of a male mouse whose insulin-reception system had been damaged was 3.2 grams of rodent chow. A male whose insulin receptors were normal ate 2.8 grams. Females showed a similar pattern, eating 3.1 and 2.7 grams respectively. And this increased food intake did, indeed, lead to obesity. The bodies of adult knockout males were 23% fat. Those of the control males were only 18% fat. (Corresponding figures for females were 12% and 10%, since females are the slimmer sex in mice.)

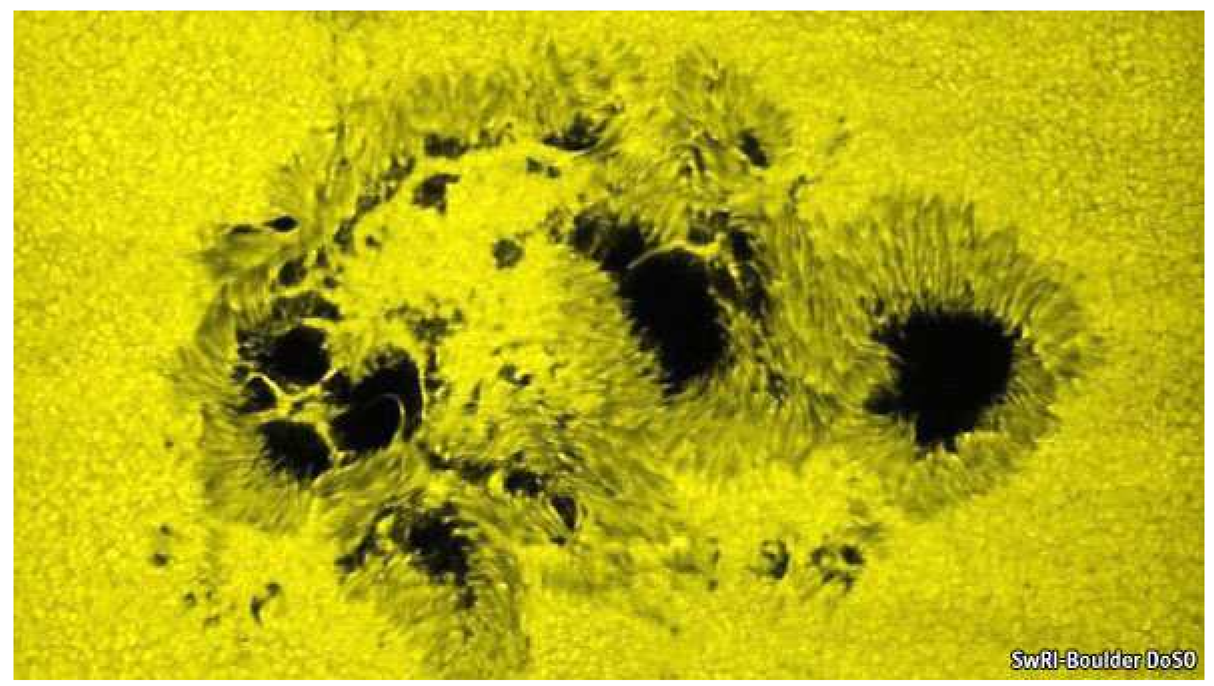
By themselves, these results do not prove that insulin-resistance is the explanation for the tendency of the already-lardy to eat too much. Mice are not men (though the similarity is closer than many would like to think), and a genetic knockout is not the same as naturally acquired insulin resistance. Moreover, as sharp-eyed readers will have noticed, there is something odd about a mechanism that increases the appetite by reducing the production of a chemical which causes the sensation of pleasure. Clearly, a lot more work is needed to unpick the details. But if Dr Bruning is on the right track, the slippery slope that leads to obesity may eventually get a little easier to climb back up.

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Solar physics

Sun down

Several lines of evidence suggest that the sun is about to go quiet



Spots of bother?

DURING the four centuries that it has been studied in detail, the sun has usually behaved in a regular manner. The number of spots on its surface has waxed and waned in cycles that last, on average, 11 years. Such cycles begin with spots appearing in mid-solar latitudes and end with them near the equator. And the more spots there are, the more solar storms there are around.

Sometimes, though, the sun sulks and this solar cycle stops. That has happened twice since records began: during the so-called Maunder minimum of 1645 to 1715 and the Dalton minimum of 1790 to 1830. These coincided with periods when global temperatures were lower than average, though why is a matter of debate.

An absence of sunspots also means an absence of solar flares and their more violent siblings, coronal mass ejections. Such outbursts disrupt radio and satellite communications, electricity grids and a variety of electronic equipment, so the pattern of solar activity is of more than academic interest. A new solar minimum, then, would test theories about how the climate works and also make communications more reliable. And many solar physicists think such a new minimum is on the cards. A group of them, who all work for America's National Solar Observatory (NSO), have just had a meeting in New Mexico, under the aegis of the American Astronomical Society, to announce their latest results.

Frank Hill and his team were the discoverers, 15 years ago, of an east-west jet stream in the sun. They also worked out that the latitude of this wind is related to the sunspot cycle. At the beginning of a cycle the jet stream is found, like sunspots, in mid-latitudes. As the cycle progresses, it follows the spots towards the equator.

Intriguingly, however, Dr Hill's studies indicate that the jet stream of a new cycle starts to form years before the sunspot pattern. This time, that has not happened. History suggests a new cycle should begin in 2019. If the sun were behaving itself, Dr Hill's team would have seen signs of a new jet stream in 2008 or 2009. They did not. Nor are there indications of one even now. If a change in the jet stream really is a leading indicator of solar activity, then no new cycle is on the horizon.

The second study which suggests something odd is happening looked at the strengths of sunspots. Matthew Penn and William Livingston have analysed 13 years of data which indicate that, independently of the number of spots around, there has been a decrease in their strength.

Sunspots are caused by irruptions into its surface of the sun's deeper magnetism. These create local drops in temperature, which make the surface gas darker. Over the period which Dr Penn and Dr Livingston analysed, the average magnetic strength of the irruptions has declined. Below a certain threshold, they will not be strong enough to overcome the convective mixing of the gas at the surface, and spots will disappear altogether. If the present trend continues, that will happen in 2021.

The third measure of the sun's decline is in its outer atmosphere, the corona. At each solar maximum, the corona sloughs off the magnetic fingerprint of the previous cycle by pushing it to the poles. According to Richard Altrock, the leader of another NSO team at the meeting, that does not appear to be happening in the present cycle. It looks, then, as if a new, extended solar minimum is about to begin.

That is good news for operators of communications satellites. And it is interesting news for those who worry about global warming. If the Maunder and Dalton minima actually did affect the climate, then a new one might counteract the effects of the extra greenhouse gases people are now pumping into the atmosphere-at least, until the solar cycle returns. Whether the breathing space thus granted would be used wisely or squandered is another matter. Do not expect that debate to be as placid as the spotless sun.

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Poland's modern history

Flagging up the past

One of the great intellectuals of post-1989 Europe gives his verdict on what happened when the Berlin Wall fell and communism finally collapsed

In Search of Lost Meaning: The New Eastern Europe. By Adam Michnik. *University of California Press; 248 pages; $29.95 and pound20.95.* Buy from Amazon.com, Amazon.co.uk



AFTER the velvet revolution came the scratchy transformation: 50 years of undigested trauma spilling over into a world of new rules and old enemies. The woes and worries of the post-communist era, and their roots in the region's past, are the

subject of a powerful collection of essays by Adam Michnik, the editor of a leading Warsaw daily and a well-known east European intellectual.

As a Polish dissident Mr Michnik was one of communism's most formidable foes. He went on to found a media empire and became a towering presence on the post-1989 landscape. Vaclav Havel, his friend and Czech counterpart, calls him the "intellectual conscience of the Polish nation". The ten essays in this book appeared first in the author's newspaper, *Gazeta Wyborcza*. The first four deal with anniversaries: the founding of Solidarity in 1980, the imposition of martial law in 1981, the collapse of communism in 1989 and Hungary's doomed uprising in 1956. Mr Michnik disentangles their perceived significance at the time, and the role they serve today, taking in also events elsewhere in the region. Then he turns to the rancid climate of modern Polish politics, and finally to Polish-Jewish history.

Mr Michnik's cultural and literary expertise are well displayed. He writes with insight and authority about the giants of Polish literature, Adam Mickiewicz from the 19th century and Czeslaw Milosz, the Nobel-prize winning poet who died in 2004. He weaves their lives and writings into a compelling story of dilemmas, courage, dignity and defiance. The reader is quickly transported to the Warsaw of the 1960s, where the allegories of Mickiewicz's play, "Forefathers' Eve", expressed resistance against communist censorship.

The author's chief message is to try to promote a clear-headed view of the past for "idealists without illusions". He decries the simple narrative in which Polish patriots are paragons of virtue, and their Bolshevik persecutors the epitome of evil. He highlights, for example, the shocking story of the first president of post-1918 Poland, Gabriel Narutowicz. This brainy and inspirational Lithuanian-born, Swiss-educated engineer prompted an outbreak of bewildering hysteria. Cursed as a cosmopolitan, a puppet of Jews and Freemasons, and an atheist, the hapless head of state was assassinated by a nationalist zealot after only five days in office.

For Mr Michnik the stench of the "gutter" (or the "septic tank" as he also calls it) pervades Polish politics, in the ultra-nationalism of the inter-war years, and in the venomous stance of the post-war communist regime towards reconciliation with Germany (a cause bravely promoted by the Catholic church under Karol Wojtyla, later the first Polish pope). It continues, he believes, in modern politics. One feature is the use of smears. These typically involve a public figure's real or alleged collaboration with the communist secret police. Another is vitriolic denunciation of the "Round Table" talks, which brought about the peaceful end of communist rule. Why, he asks, are these now seen as "malicious conspiracy and high treason"?

The answer, he says, is a "strange national nihilism" in which disasters are celebrated and triumphs denigrated. The Warsaw uprising of 1944, one of the greatest catastrophes in Polish history, gets a much better press than Poland's role in destroying the evil empire. "Why are Poles unable to take pride in what was magnificent and brave, wise and rational, and accomplished before the eyes of the entire world. Can Poles only worship the defeated, the fallen and the murdered?"

Mr Michnik's record as an anti-communist (he was first jailed at the age of 18 and has spent six years of his life in prison) gives him the right to be generous towards former foes. He believes former communists should be treated as normal politicians, not moral lepers. He also believes that good actions can redeem bad ones: for example, he defends General Czeslaw Kiszczak, the chief of security at the time of martial law (and responsible for abominable repressions) because as interior minister a few years later he allowed the Round Table talks to give Polish communism a bloodless burial.

Perhaps most controversially he praises Poland's last communist leader, General Wojciech Jaruzelski, for his "admirable courage" in accepting responsibility for imposing martial law in 1981. Mr Michnik sees that decision in retrospect as probably the least bad of the available options: it would have done Poland no good, he argues, to repeat the Hungarian uprising of 1956. His reflections on the pogroms of Jews at the hands of their fellow Poles in Jedwabne under Nazi occupation and at Kielce after the war are piercingly well-judged.

Some might see Mr Michnik now as the epitome of the Warsaw liberal establishment. But in his own eyes he is once again a dissident: someone who is a little ill at ease with the materialism of post-communist capitalism, and deeply out of sympathy with the vengeful historical triumphalism of the national-patriotic camp, exemplified by the Kaczynski twins (Lech Kaczynski, Poland's late president, perished in a plane crash in April 2010; Jaroslaw is leader of the main opposition party).

A weakness of the book is its apocalyptic tone. This can add a touch of urgency to a newspaper column penned during a nasty crisis, but can seem overdone in retrospect. Mr Michnik says at one point he watches "with despair" the "increasing lack of clarity and obliteration of the border between truth and lies". Polish public debate can indeed be overheated, but in his denunciation of it, Mr Michnik risks falling victim to the hysteria he bemoans.

It is worth remembering that Poland is not actually run by the people he criticises and that in most eyes the country is a great success story, with a booming economy, strong government and friendly ties with its neighbours. Rarely if ever have things looked better. One question Mr Michnik asks is "why are Poles so angry?" His analysis of the pathological discontent of some of his compatriots is interesting but the real answer is that many-probably most-are not angry at all.

For all its (often uncomfortable) insights, the book is frustratingly ill-edited. It lacks dates. The skimpy glossary is of little help. Readers who did not spend the last 20 years following the twists and turns of Polish politics will need to concentrate hard to grasp who knifed whom, when and why. Mr Michnik was writing mainly for Polish readers and it shows. The translation is patchy in places too. A crucial phrase in the biggest scandal in Poland's modern politics is *grupa trzymajaca wladze*. For some reason this is rendered as the "power-yielding group". It should be the "power-wielding group". That's a big difference. The author's scrupulous wordsmithery deserves better.

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The power of faith

Irrational belief

A medley of aliens and conspiracy theories

The Believing Brain: From Ghosts and Gods to Politics and Conspiracies-How We Construct Beliefs and Reinforce Them as Truths. By Michael Shermer. *Times Books; 400 pages; $28. To be published in Britain in July; pound19.99.* Buy from Amazon.com, Amazon.co.uk

MICHAEL SHERMER is a psychologist, cyclist, one-time fundamentalist Christian, founder of *Skeptic* magazine and, currently, the author of a monthly column with the same name published in *Scientific American*. He has built a professional career out of casting a rationalist's eye over some of the wackiest beliefs that humanity has to offer.

But his latest book is more than just a display case full of specimens collected by a man fascinated by the paranormal. Mr Shermer is interested in how such beliefs come to be held, and why they can persist even in the face of what, to others, can seem to be the overwhelming evidence that contradicts them.

The first part of the book is a mixture of psychology and trendy neuroscience research that presents the evidence for Mr Shermer's central claim: that, instead of shaping belief around painstakingly gathered, soberly judged evidence, people most often decide upon their beliefs first, and then use an impressive range of cognitive tricks to bend whatever evidence they do discover into support for those pre-decided acts of faith.

In the second part of "The Believing Brain" Mr Shermer applies those observations to the almost infinite variety of weird and wonderful beliefs that people hold, from alien abductions to government conspiracies to bring down the World Trade Centre-and, inevitably, to religion (a chapter on politics, by contrast, feels misplaced and forced). He is an able skewerer of sloppy thinking. The section on conspiracy theories, for instance, memorably exposes the bizarre leaps of logic that adherents often make: "If I cannot explain every single minutia [about the collapse of the twin towers]...that lack of knowledge equates to direct proof that 9/11 was orchestrated by Bush, Cheney, Rumsfeld and the CIA."

A common risk with this kind of book is that the author comes across as overly smug and superior; just look at how the duke of debunkers, Richard Dawkins, is sometimes perceived, even by his fans. Mr Shermer is aware of this risk, and is at

pains to reassure readers that his conclusions apply to everyone, even himself. In a chapter on alien abductions, he recounts an abduction story of his own. Exhausted after cycling 1,259 miles in 83 hours as part of an endurance challenge called the Race Across America, he becomes convinced that the motorhome carrying his support team is actually an alien spacecraft, and that his team's pleas for him to come inside and get some rest are merely a cunning pretext to get him to co-operate with a spot of alien probing. Surprised when the interior of the mothership turns out to closely resemble a General Motors motorhome, Mr Shermer consents to lying down. On waking a couple of hours later, he is able to joke about the experience with his team-mates.

That experience gives one useful definition of a sceptic, as Mr Shermer understands the term: one who is aware of the fallibility of intuitions, and willing to take steps to minimise them. It remains, sadly, an uncommon combination.

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David Mamet

A liberal recants

David Mamet's rant against liberalism

The Secret Knowledge: On the Dismantling of American Culture. By David Mamet. *Sentinel; 226 pages; $27.95.* Buy from Amazon.com



The zeal of a convert

IN 2008 David Mamet, an American playwright, essayist, screenwriter and director (best known for his brilliant play, "Glengarry Glen Ross"), wrote a scathing article in New York's *Village Voice* under the title "Why I Am No Longer a Brain-Dead Liberal". It was a bracing shock to the paper's earnestly liberal readership, which was challenged by such

Mamet *apercus* as "...tallying up the ledger in those things which affect me and in those things I observe, I am hard-pressed to see an instance where the intervention of the government led to much beyond sorrow."

A provocative newspaper article for the New York in-crowd is one thing; a full-length book justifying Mr Mamet's Damascene conversion to the way of Friedrich Hayek and Milton Friedman quite another. For all Mr Mamet's skill with words, this is a tedious and simplistic rant (government bad; unhampered individuals good, and so on). Economics and politics are reduced to caricatures, with no room for nuance ("the Israelis would like to live in peace within their borders; the Arabs would like to kill them all"). Social policy is reduced to banalities (affirmative action is against the Constitution; "the Liberal Arts University has had it"). And, of course, global warming is a myth.

The editorial inaccuracies also detract. Mr Mamet praises Dambisa Moyo, a Zambian economist and author, for her criticism of foreign aid, but identifies her as a Gambian. (One country is in southern Africa, the other in the west, but, hey, why should a misplaced consonant spoil the argument of a true conservative?) He rails against American health-care reform but seems to think only 20m people are uninsured (the latest estimates reckon the figure is just over 50m).

Fortunately for the reader the rant comes in short segments: there are 39 chapters, none more than a handful of pages long-which means Mr Mamet's notions are more easily digested than might be possible at greater length, and at bite-size they can be wonderfully entertaining. Even a brain-dead liberal should appreciate the surgical finesse with which Mr Mamet punctures the pomposities of Gloria Steinem and Susan Sontag. Only rarely does his prose slump into risible clumsiness ("Culture exists and evolves to relegate to habit categories of interactions the constant conscious reference to which would make human interaction impossible").

As a polemicist Mr Mamet is impressive-but at the cost of intellectual honesty. When he was a "brain-dead liberal", his plays and films underlined the flaws of Western society and capitalism. But as a born-again conservative he more or less ignores the global financial crisis that followed the credit crunch ("the foreseeable bust of 2008"), and he skates blithely over the disasters of the Iraq war.

Mr Mamet's vehemence commands a certain admiration. "Liberalism", he writes, "is a religion. Its tenets cannot be proved, its capacity for waste and destruction demonstrated. But it affords a feeling of spiritual rectitude at little or no cost." Maybe so, but as an apostate from liberalism Mr Mamet has simply embraced a new religion-with all the excessive zeal of the recent convert.

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New fiction

Chasing the dragon

With a Dickensian sweep of characters

River of Smoke. By Amitav Ghosh. *John Murray; 528 pages; pound20. To be published in America in September by Farrar, Straus and Giroux; $28.* Buy from Amazon.com, Amazon.co.uk

THIS is the second novel in a promised trilogy by Amitav Ghosh, set in the late 1830s, the eve of the first opium war between Britain and China. The first, "Sea of Poppies", set a year earlier, conjured up the dust-baked heat of the north Indian plains, awash with the violent red billows of *Papaver somniferum*, the British opium factories and the wharves of the silty Hooghly River from where the sticky, addictive stuff, packed inside clay balls the size of cannon shot-"foreign mud" in Chinese eyes-flowed to the Celestial Kingdom. "River of Smoke" takes the story, and some of the first book's characters, from Calcutta to the port-city of Canton (now called Guangzhou) on the Pearl River delta, then and now, China's emporium.



The vast book has a Dickensian sweep of characters, high- and low-life intermingling. Tying this book to the last is the *Ibis*, a former slave ship carrying convicts and indentured workers to Mauritius. A storm overtakes the *Ibis*, along with the *Anahita*, an opium carrier out of Bombay owned by Bahram, a Parsi merchant, and the *Redruth*, outfitted by a Cornish plantsman for botanical exploration. In magical ways, the storm entwines the characters' destinies.

In Canton, the inexorable drumbeat is the coming collision between China and the West when the emperor's honest new commissioner, Lin Zexu, arrives to put a stop to the quantities of ruinous opium being smuggled into the country. For "presiding over the Sodom of our age", the Brits win the prize for high cant: "Really there was no language like English for turning lies into legalism." But moral and immoral exist together. As Bahram told Napoleon years earlier (yes, you will have to read the book to understand the circumstances), opium was like the wind or the tides: "A man is neither good nor evil because he sails his ship upon the wind. It is his conduct towards those around him-his friends, his family, his servants-by which he must be judged." In the end, Bahram finds himself wanting.

Mr Ghosh conjures up a thrilling sense of place. For all the evil of the trade, Canton stands at the heart of an earlier web of globalism. The lexicon of the novel-English, Hindi, Parsi, Malay, Chinese and pidgin-is a rich brew from cultures re-energised through imperialism and trade. Sometimes Mr Ghosh is too addicted to the brew: he describes the household of George Chinnery, an historical figure who became a well-known painter of Asian scenes, as "chuck-muck as any in the city, with paltans of nokar-logue doing chukkers in the hallways and syces swarming in the istabbuls". And that is not to mention the bobachee-connah.

The era's globalism bred long-distance passions for pictures and plants. And not just money was made out of nothing in the "factories" (the warehouses and apartments) of the foreign concession, but also whole new lives. The novel's characters never come so alive as when they are amid Canton's swarms. In the current age of globalism the creeks of Canton have been filled in. The boat-people have been put up in tenements. And all sense of where you are is lost to a sea of concrete. Who would believe, asks a central character at the end, that such a place once existed?

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Class politics

Giving the poor a good kicking

Unfairly, by its snobbish fellow citizens

Chavs: The Demonization of the Working Class. By Owen Jones. **Verso; 298 pages; $23.95 and pound14.99.** Buy from Amazon.com, Amazon.co.uk



A stereotype for the mocking

IT WOULD be quite hard these days for a national newspaper columnist to get away with describing black people as "dismal ineducables" or "lard-gutted slappers". He would court opprobrium if he were to argue that, as a class of human beings, they lack morals or self-control, or to claim that they exist parasitically on the hard work of others. A politician who opined that they ought to be forcibly sterilised for the benefit of everyone else would be unlikely to get re-elected, and might even be thrown out of office.

But according to Owen Jones, a former trade-union worker, it is still acceptable in modern Britain to paint with such broad and hate-filled brushstrokes as long as you confine yourself to criticising the poor. His book concerns "chavs", a supposed underclass of ill-educated, fast-breeding, violent and amoral poor people currently plaguing Britain. The term has risen from obscure origins over the past decade: one "backronym" has it standing for Council Housed And Violent, another theory is that it is derived from the Romany word *chavi*, meaning "child". Some argue that the term is meant mostly in jest, comparing it to describing the rich as "toffs". But for Mr Jones, it is a much nastier expression: infused with venom, and reflective of a growing distrust and fear, it has mutated to refer to the poor in general.

Inevitably, much of the evidence for that claim is subjective and anecdotal. But enough can be found for it to be quite persuasive. Bile and hatred are freely available, whether from books devoted to laughing at "chav towns", or websites that describe the five best ways to kill a chav, should you encounter one. A columnist describes Vicky Pollard, an archetypal chav created for a TV comedy programme, as emblematic of the aforementioned "dismal ineducables" and "pasty-faced, lard-gutted slappers" supposedly infesting the nation's public housing. A local newspaper writes about a "pack of slavering chav-estate mongrels". One local councillor infamously advocated compulsory sterilisation for benefit claimants who have had a second child or more. There is plenty more in a similar vein.

There is a double standard at work, argues Mr Jones, whereby Britain's entire working-class is tarred by association with its worst members. Serious crimes committed by poor people-including one recent well-known case of a mother kidnapping her own daughter-are seized on as evidence that they are all, as a group, criminal and violent. Other crimes,

that may be even more serious but are committed by those further up the income scale-such as the quiet murder of dozens, possibly hundreds, of people by a middle-class doctor-are dismissed as outlandish one-offs.

Part of what makes Mr Jones so angry-and, as with all the best polemics, a luminous anger backlights his prose-is that this sneering and humiliation is inflicted by the well-off on those who have the least. He does not deny that there are problems with Britain's poor-but he ascribes them to the policies of governments over the past 30 years rather than a generic characteristic.

Mr Jones offers a fairly standard left-wing analysis: Margaret Thatcher's economic reforms in the 1980s destroyed many of the old working-class communities that relied on manufacturing. They threw millions of people out of stable and comparatively well-paid work into infrequent, badly paid temporary jobs-or trapped them in towns suddenly bereft of any reason to exist and with no jobs to apply for (intriguingly, this is a position that Norman Tebbit, a Thatcherite outrider interviewed in the book, seems to have some sympathy with). At the same time, politicians promoted the idea of individualism and meritocracy, the theory that one's station in life was best changed by hard work and dedication. Mrs Thatcher's three successive election victories so changed the nature of politics that even the Labour Party, traditionally the champion of the working classes, came to adopt a similar view of the world, competing for a tiny number of swing voters while reasoning that its traditional working-class base had nowhere else to go.

But the dark underside of the aspiration to meritocracy-as Michael Young, who coined the word in 1958, foresaw-is an assumption that the poor are the way they are because they deserve to be, whether through laziness, obstinacy or just plain stupidity. That makes them easy targets for public ridicule. Worst of all, says Mr Jones, although a few do manage to escape their backgrounds, by and large the talk of opportunity is a diverting mirage. According to the OECD, a rich-country think tank, a father's income is a stronger predictor of a child's salary in Britain than in any of the other 11 rich countries surveyed.

Some readers will dispute Mr Jones's version of history, arguing that Mrs Thatcher's reforms-or something very similar-were both inevitable and necessary, or that governments can do little in the face of the economic tides that are enriching millions in the developing world at the same time as they de-industrialise the rich countries. The second half of his book, which deals with everything from political history to the decline of trades unions and the impact of a housing shortage, feels overly compressed, with too many ideas chasing too few pages. But even for those who disagree with his analysis, Mr Jones's diagnosis-that the poor are objects of scorn and an acceptable target for the sort of casual hatred reserved in previous decades for black people, say, or the Irish-is depressingly difficult to argue with.

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An exhibition at London's National Gallery

Mountain landscapes

Forests, Rocks, Torrents



Unlike Norway, Switzerland is landlocked, rich and at the heart of Europe. Unlike Switzerland, Norway is off in a corner of the continent. Yet in 1800 both countries were at the start of a tradition of national landscape painting which, over the next 150 years, would spread to virtually every modern state. "Forests, Rocks, Torrents", which includes works by Peder Balke and Alexandre Calame (pictured above) from Asbjorn Lunde's magnificent collection, is at the National Gallery, London, until September 18th.

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Paddy Leigh Fermor

Sir Patrick Leigh Fermor, traveller, writer and war hero, died on June 10th, aged 96



ONE evening in the spring of 1934 19-year-old Patrick Leigh Fermor, making his way on foot from the Hook of Holland to Constantinople, found himself taking tea under flowering horse-chestnut trees at the *kastely* of Korosladany, in Hungary.

> We sat talking until it was lighting-up time, and indoors pools of lamplight were being kindled with spills along the succession of lavender-smelling rooms. It lit the backs of bindings, pictures, furniture which had reached exactly the right pitch of faded country-house shabbiness, curtains laundered hundreds of times over and music open above the keys of a piano. What music? I can't remember; but suddenly, sailing into my mind after all these years, there is a bowl on the piano of enormous white and red peonies and a few petals have dropped on the polished floor.

Wherever he went, the dusty young traveller stumbled on scenes like this. His hosts in the oddest corners of central Europe dressed in black tie for dinner, played ferocious bicycle polo in the courtyard, or catalogued their butterfly collections in cavernous libraries where he could lose himself deliriously among folios, almanacs and scrolls with dangling seals. They lent him pearl-handled pistols and a superb chestnut horse "with more than a touch of Arab to his brow" to take him across the plains. Long Turkish *nargileh* were indolently smoked, Tokay swigged from cut glass; while, upstairs, staff would be neatly laying out on his bed the rumpled canvas trousers and thin tweed jacket which were the smartest clothes he had, purchased for his odyssey from Millet's army surplus in the Strand.

He had set out on his great walk for a jumble of reasons, but mostly to have fun. He felt "preternaturally light", as he left London, "as though I were already away and floating like a djinn escaped from its flask." Formal education didn't suit him; the wild, noisy boy couldn't bear to be hemmed in with rules or bounds, and had been expelled from King's Canterbury for holding hands with a greengrocer's daughter. Yet he loved books, especially the tales of Sir Walter Scott and Charles Kingsley's "Heroes", and could now see himself as a knight or a wandering scholar, going from castle to castle or, just as happily, sleeping in woods and barns or under the stars.

In his rucksack he carried, besides pencils and notebooks, poetry. As he went he recited Keats, Marlowe and Shakespeare, astonishing the rustics he met-just as he would later amaze his dinner guests, in Worcestershire or in his Elysian house by the sea in deepest Greece, with non-stop recitations, arcane facts, stories and songs, not infrequently ending with "It's a Long Way to Tipperary" sung in Hindi.

He was a compulsive autodidact, wanting to know the names and nature of everything. Entering a strange region, he would grapple with its history, rifling through the Encyclopedia Britannica and *Meyers Konversationslexicon* to trace the

movements of tribes and the collision of cultures, producing in his books whole page-lists of Klephts and Armatoles, Kroumides and Koniarides, Phanariots of the Sublime Porte and boyars of Moldowallachia, until his readers swooned. With the same high-spirited eagerness, and a flask full of local fire-water, he would run into taverns, caves, shepherd huts and gypsy camps, hungry to pick up the unknown language and join in. Dashing and courteous, splendidly handsome, he wished often for the strange hats he saw, bowler or thin-brimmed, foot-high or scarlet-plumed, in order to flourish them high to all the people who wished him well.

Critics of his two best-loved books, "A Time of Gifts" (1977) and "Between the Woods and the Water" (1986), complained that he swanned through 1930s Europe without noticing the clouds. His visit to the Munich HofbrÃ¤uhaus mostly described the enormous girth and appetite of ordinary Bavarians, barely mentioning the black-clad SS men in another room. An encounter with orthodox Jews in Transylvania focused on a reading, which thrilled him, of the Song of Miriam in Hebrew. Though both books were written decades after the event, he added no politics to them. Culture, beauty, romance and laughter were what he saw and cared for.

By the same token, he never wrote about his wartime experience as a liaison officer with the partisan guerrillas in Crete-except to mention the swagger-black boots and mulberry sash of his disguise, and the evenings of drinking *raki* and cracking walnuts outside their mountain hideouts. He earned his DSO for crazily kidnapping a German general; but the moment he remembered was when that general, one dawn of his captivity, suddenly quoted a line of Horace, *Vides ut alta stet nive candidum/Soracte*; and Captain Leigh Fermor, aka Michali, finished the next five stanzas for him.

He refused a knighthood almost to the end, pointing out that he had written only a slow handful of books. This was true. He had become famous largely for chronicling a Europe that had been swept away, and had spent a charmed life without a regular job, fed-as he liked to put it-like Elijah, by the ravens. But he had done more. His wandering, writing life evoked the essential unity of Europe, the cultural and linguistic intertwinings and layer upon layer of shared history; and all with a lightness, and an infectious joy, that inspired many others to set out in the same way.
